



**Auditor of State
Betty Montgomery**

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

East Clinton Local School District
Clinton County
97 College Street
Lees Creek, Ohio 45138

To the Board of Education

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Clinton Local School District, Clinton 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Clinton Local School District, Clinton County, Ohio, as of June 30, 2004, thereof and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule presented is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, but is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2005

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited**

As management of the East Clinton Local School District, Clinton County, Ohio (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the District's performance.

This discussion and analysis of East Clinton Local School District's, Clinton County, Ohio (the District), financial performance is intended to serve as an introduction to the District's basic financial statements, and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their *Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government"* issued June 1999.

Financial Highlights

- In total, net assets decreased \$574,996. This represents a 3.2 percent change from 2004.
- General revenues accounted for \$10,030,512 or 84 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants, contributions and interest, and capital grants and contributions accounted for \$1,978,299, or 16 percent of total revenues of \$12,008,811.
- The District had \$12,583,807 in expenses related to governmental activities; only \$1,978,299 of these expenses were offset by program specific charges for services and sales, operating grants, contributions and interest, and capital grants and contributions.
- The assets of the District exceed its liabilities at June 30, 2004 by \$17,362,769. Of this amount, \$169,786 may be used to meet the District's ongoing financial obligations. The remaining amount represents capital assets net of related debt and net asset amounts restricted for specific purposes.

Using the Basic Financial Statements

This report consists of a series of financial statements and the notes to the basic financial statements. These statements are organized so the reader can understand East Clinton Local School District, Clinton County, Ohio (the District), as a whole, an entire operating entity.

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the District as a whole, and present 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 major funds, with all other non-major funds presented in total in one column. The major funds for the East Clinton Local School District, Clinton County, Ohio (the District), are the General Fund and the Debt Service Fund.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

Reporting the School District as a Whole

One of the most important questions asked about the District is “How did we do financially during 2004?” The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets and liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. However, the District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the District’s property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major funds begins on page 7. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

Governmental Funds - Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the governmental fund balance sheet, and the governmental fund statement of revenues, expenditures and changes in fund balances.

Fiduciary Funds - The District’s fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1, on the following page, provides a summary of the School District’s net assets for 2004 and 2003:

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

Table 1
Net Assets
Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$7,444,271	\$6,605,423
Capital Assets	18,458,913	19,517,159
Total Assets	25,903,184	26,122,582
Liabilities		
Long-Term Liabilities	3,337,803	3,434,321
Other Liabilities	5,202,612	4,411,020
Total Liabilities	8,540,415	7,845,341
Net Assets		
Invested in Capital Assets, Net of Related Debt	15,897,998	16,082,683
Restricted	1,294,985	1,571,041
Unrestricted	169,786	284,041
Total Net Assets	\$17,362,769	\$17,937,765

Net assets decreased by \$574,996. This was primarily due to a \$718,770 decrease in capital assets as a result of depreciation expense for the year, and an increase in expenditures related to a three percent increase in salaries, combined with a decrease in long-term liabilities, offset by a \$679,913 increase in taxes receivable.

Table 2, on the following page, shows the highlights of the District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as charges for services and sales, restricted grants and interest. General Revenues include taxes, unrestricted grants, such as state foundation support and unrestricted investment earnings.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

Table 2
Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program Revenues:		
Charges for Services and Sales	\$471,544	\$345,087
Operating Grants, Contributions and Interest	1,234,971	1,559,697
Capital Grants and Contributions	271,784	96,909
Total Program Revenues	<u>1,978,299</u>	<u>2,001,693</u>
General Revenues:		
Property Taxes	3,939,945	3,198,694
Grants and Entitlements not Restricted to Specific Programs	6,005,608	5,364,647
Investment Earnings	13,158	42,036
Miscellaneous	71,801	191,509
Total General Revenues	<u>10,030,512</u>	<u>8,796,886</u>
Total Revenues	<u>\$12,008,811</u>	<u>\$10,798,579</u>
Program Expenses		
Instruction:		
Regular	4,999,445	4,599,769
Special	1,146,197	1,018,047
Vocational	161,423	146,476
Adult/Continuing	0	286
Support Services:		
Pupils	372,085	390,506
Instructional Staff	896,135	766,944
Board of Education	34,360	23,873
Administration	1,186,306	1,049,327
Fiscal	232,650	199,301
Business	6,093	4,001
Operation and Maintenance of Plant	1,692,905	1,202,913
Pupil Transportation	909,389	717,545
Central	30,768	23,667
Operation of Non-Instructional Services:		
Other	2,762	0
Food Services	470,062	433,507
Extracurricular Activities	289,485	260,713
Interest and Fiscal Charges	153,742	204,803
Total Expenses	<u>12,583,807</u>	<u>11,041,678</u>
Increase in Net Assets	<u>(\$574,996)</u>	<u>(\$243,099)</u>

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

Governmental Activities

Property taxes revenue increased significantly due to an increase in actual property tax receipts for the year and an increase in the amount held by the County Auditor at June 30th and recognized as revenue.

Unrestricted Grants and Entitlements made up 60 percent of general revenues for governmental activities of the East Clinton Local School District, Clinton County, Ohio (the District), for fiscal year 2004. This year the District actually received more grant money than in the prior year.

Instruction comprises 50 percent of governmental program expenses. Support services expenses make up 43 percent of governmental expenses.

Operation and maintenance of plant increased significantly this year due to repairs made to the buildings that were not capitalized. Pupil transportation also increased. This increase was due to additional fuel and maintenance on the purchase of four new buses. The District typically only purchases two buses a year.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those costs. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted state aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, charges for services, fees and donations.

Table 3
Governmental Activities

	Total Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2004	Net Cost of Services 2003
Instruction	\$6,307,065	\$5,764,578	(\$5,419,687)	(\$4,926,586)
Support Services	5,360,691	4,378,077	(4,767,239)	(3,668,088)
Operation of Non-				
Instructional Services	472,824	433,507	(45,871)	(59,931)
Extracurricular Activities	289,485	260,713	(218,969)	(180,577)
Interest and Fiscal Charges	153,742	204,803	(153,742)	(204,803)
Total Expenses	<u>\$12,583,807</u>	<u>\$11,041,678</u>	<u>(\$10,605,508)</u>	<u>(\$9,039,985)</u>

The School District's Funds

Information about the District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,017,206 and expenditures of \$12,394,779. The net change in fund balance for the year was most significant in the Debt Service Fund, an increase of \$38,069. This was due primarily to a decrease in interest and fiscal charges paid on long-term debt.

General Fund - Budget Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal year 2004, the District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

The District's ending unobligated cash balance was \$188,675 above the final budgeted amount in the General Fund.

For the General Fund, budget basis revenue was \$10,001,815 with original budget estimates of \$9,139,968, a difference of 9 percent. This was due mainly to an unexpected increase in tax receipts related to a company that opted to forego tax abatement. This same company was also behind in personal property taxes and made the prior year and current year payments all during fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets

The East Clinton Local School District's, Clinton County, Ohio (the District), investment in capital assets as of June 30, 2004 was \$18,458,913. This investment in capital assets includes land, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

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

	2004	2003
Land	\$339,476	\$339,476
Buildings and Improvements	16,607,809	17,186,681
Furniture and Equipment	1,046,756	1,210,392
Vehicles	464,872	441,134
Totals	\$18,458,913	\$19,177,683

Net capital assets decreased \$718,770 from the prior year, due mainly to increases in accumulated depreciation.

For more information on capital assets, refer to note 9 of the basic financial statements.

Debt

At June 30, 2004 the District had \$2,921,208 in bonds outstanding, with \$215,000 due within one year. Table 5, on the following page, summarizes outstanding bonds:

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

Table 5
Outstanding Debt, at Year End
Governmental Activities

	2004	2003
General Obligation Bonds:		
1980 - School Improvement Bonds	\$0	\$75,000
General Obligation Bonds:		
1995 - School Improvement Bonds	0	3,020,000
General Obligation Bonds:		
2003 - School Improvement Refunding Bonds	2,899,998	0
Accretion on Capital Appreciation Bonds	21,210	0
Totals	\$2,921,208	\$3,095,000

School Improvement Bonds 1980

The District issued \$1,640,000 in voted general obligation bonds for the purpose of making improvements to the School District's facilities. The bonds were issued for a twenty-three year period with final maturity on December 1, 2003.

School Improvement Bonds 1995

The District issued \$3,800,000 in voted general obligation bonds for the purpose of making improvements to the District's facilities. The bonds were issued for a twenty-three year period with final maturity on December 1, 2021.

School Improvement Refunding Bonds 2003

The District issued \$2,899,998 in general obligation bonds for the purpose of refunding the 1995 School Improvement Bonds. The bonds were issued for a fourteen year period, with final maturity in December 2017.

The District's voted legal debt margin was \$10,165,037 with an unvoted debt margin of \$140,303 at June 30, 2004.

For more information on debt, refer to note 14 of the basic financial statements.

District Challenges for the Future

Management expects East Clinton Local School District's financial status to be somewhat challenging in fiscal 2006. The District passed a three mill permanent improvement levy in November 2004, and in return, informed the County Auditor not to collect taxes for the last year, 2005, of the School District's emergency levy. While this is good for the District, it will take one fiscal year to receive the full effect of the new levy, and thus, fiscal year 2006 may see some cuts in staff in order to balance the budget.

School funding in Ohio is still uncertain due to a number of issues. This is an important challenge confronting the District, as East Clinton is heavily dependent on State funding. While the Ohio Supreme Court ruled in March 1997 that Ohio's funding of public schools is unconstitutional and needs to be restructured, subsequent Court reviews of the legislature's responses have found the State legislature has not adequately responded to the specifics of the ruling. Thus, many school districts believe Ohio's public schools continue to be funded through an inadequate and inequitable system.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
Unaudited
(Continued)**

The State legislature has created other opportunities for school children in Ohio that have caused more funding concerns for Ohio's public schools. The liberalization of home schooling requirements, post-secondary options and intra-district open enrollment are programs that have created additional competition for the limited funding available for education in Ohio.

The projection of student enrollment is another issue that is difficult to forecast. During the last five years, East Clinton's student enrollment has risen and fallen. These fluctuations make it very difficult to forecast an accurate financial picture of the District. The transient nature of the District's residents, students choosing open enrollment, parents utilizing home schooling and students selecting the post-secondary option makes estimating the number of students to be funded through the school foundation program difficult. East Clinton has experienced a decline in enrollment for several years, however in fiscal years 2003 and 2004, there were slight increases but a decline again in fiscal 2005.

The District continues to demonstrate fiscal responsibility by doing whatever is necessary to keep the district in the "black." East Clinton is proud to have an "effective" rating for the third consecutive year on the State mandated Report Card. Parents, students and staff are to be commended for the commitment of a quality education for the students of the School District. The Board and administrators are hopeful that public school funding in Ohio is a priority for Ohio's political leaders, and that it will permit East Clinton to continue to provide a quality education for its students.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information contact Linda Carson, Treasurer, at East Clinton Local School District, 97 College Street, Lees Creek, OH 45138.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,990,601
Accrued Interest Receivable	9,569
Accounts Receivable	36,384
Materials and Supplies Inventory	30,431
Intergovernmental Receivable	101,908
Taxes Receivable	4,208,935
Deferred Charges	66,443
Capital Assets:	
Land	339,476
Depreciable Capital Assets, Net	18,119,437
 Total Assets	 25,903,184
Liabilities	
Accounts Payable	53,415
Accrued Wages and Benefits	1,018,831
Intergovernmental Payable	333,924
Deferred Revenue	3,735,652
Matured Compensated Absences Payable	36,252
Special Termination Benefits Payable	18,000
Accrued Interest Payable	6,538
Long-Term Liabilities:	
Due Within One Year	244,544
Due in More Than One Year	3,093,259
 <i>Total Liabilities</i>	 8,540,415
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,897,998
Restricted for:	
Set Asides	87,029
Capital Projects	436,236
Debt Service	90,769
Other Purposes	347,286
Library Materials and Services:	
Expendable	33,665
Nonexpendable	300,000
Unrestricted	169,786
 Total Net Assets	 \$17,362,769

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

		Program Revenues	
Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	
<u>Governmental Activities:</u>			
Instruction:			
Regular	\$4,999,445	\$21,358	\$100,797
Special	1,146,197	0	693,083
Vocational	161,423	0	30,344
Support Services:			
Pupils	372,085	0	9,213
Instructional Staff	896,135	0	105,577
Board of Education	34,360	0	0
Administration	1,186,306	100,478	115,133
Fiscal	232,650	0	0
Business	6,093	0	0
Operation and Maintenance of Plant	1,692,905	0	0
Pupil Transportation	909,389	0	15,730
Central	30,768	0	17,333
Operation of Non-Instructional Services:			
Other	2,762	0	0
Food Services	470,062	279,192	147,761
Extracurricular Activities	289,485	70,516	0
Interest and Fiscal Charges	153,742	0	0
Total Governmental Activities	<u>\$12,583,807</u>	<u>\$471,544</u>	<u>\$1,234,971</u>

General Revenues:

Property Taxes Levied for:
 General Purposes
 Debt Service
 Capital Outlay
 Grants and Entitlements not
 Restricted to Specific Programs
 Investment Earnings
 Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated - Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

	Net(Expense) Revenue and Changes in Net Assets
Capital Grants and Contributions	Governmental Activities
\$41,796	(\$4,835,494)
0	(453,114)
0	(131,079)
0	(362,872)
0	(790,558)
0	(34,360)
0	(970,695)
0	(232,650)
0	(6,093)
229,988	(1,462,917)
0	(893,659)
0	(13,435)
0	(2,762)
0	(43,109)
0	(218,969)
0	(153,742)
<u>\$271,784</u>	<u>(10,605,508)</u>
	3,516,983
	359,014
	63,948
	6,005,608
	13,158
	<u>71,801</u>
	<u>10,030,512</u>
	(574,996)
	<u>17,937,765</u>
	<u>\$17,362,769</u>

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**BALANCE SHEET
JUNE 30, 2004**

	General	Debt Service Fund	All Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,265,147	\$410,112	\$1,228,313	\$2,903,572
Materials and Supplies Inventory	0	0	30,431	30,431
Accrued Interest Receivable	7,445	0	2,124	9,569
Accounts Receivable	35,997	0	387	36,384
Interfund Receivable	82,571	0	0	82,571
Intergovernmental Receivable	0	0	101,908	101,908
Property Taxes Receivable	3,784,082	352,663	72,190	4,208,935
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	87,029	0	0	87,029
Total Assets	<u>\$5,262,271</u>	<u>\$762,775</u>	<u>\$1,435,353</u>	<u>\$7,460,399</u>
Liabilities				
Accounts Payable	\$35,421	\$0	\$17,994	\$53,415
Accrued Wages and Benefits	915,794	0	103,037	1,018,831
Accrued Interest Payable	0	2,615	0	2,615
Matured Compensated Absences Payable	36,252	0	0	36,252
Special Termination Benefits Payable	18,000	0	0	18,000
Interfund Payable	0	0	82,571	82,571
Intergovernmental Payable	206,847	0	20,311	227,158
Deferred Revenue	3,506,810	324,925	66,542	3,898,277
Total Liabilities	<u>4,719,124</u>	<u>327,540</u>	<u>290,455</u>	<u>5,337,119</u>
Fund Balances				
Reserved for Encumbrances	80,522	0	36,523	117,045
Reserved for Property Taxes	277,272	27,738	5,648	310,658
Reserved for Budget Stabilization	87,029	0	0	87,029
Reserved for Library Materials and Services	0	0	300,000	300,000
Unreserved:				
Undesignated, Reported in:				
General Fund	98,324	0	0	98,324
Special Revenue Funds	0	0	335,571	335,571
Debt Service Funds	0	407,497	0	407,497
Capital Projects Funds	0	0	433,491	433,491
Permanent Fund	0	0	33,665	33,665
Total Fund Balances	<u>543,147</u>	<u>435,235</u>	<u>1,144,898</u>	<u>2,123,280</u>
Total Liabilities and Fund Balances	<u>\$5,262,271</u>	<u>\$762,775</u>	<u>\$1,435,353</u>	<u>\$7,460,399</u>

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Total Governmental Fund Balances		\$2,123,280
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	339,476	
Other capital assets	27,510,825	
Accumulated depreciation	(9,391,388)	
Total capital assets	18,458,913	18,458,913
Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Taxes		162,625
Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		
		(106,766)
Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis.		
		66,443
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds payable	(2,899,998)	
Accretion on capital appreciation bonds	(21,210)	
Premium on debt issue	(335,270)	
Deferred Amount on Refunding	272,640	
Accrued interest on bonds	(3,923)	
Compensated absences	(353,965)	
Total liabilities	(3,341,726)	(3,341,726)
Net Assets of Governmental Activities		\$17,362,769

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General	Debt Service Fund	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$3,502,517	\$359,122	\$65,609	\$3,927,248
Intergovernmental	6,402,302	31,688	1,088,077	7,522,067
Interest	13,851	0	3,992	17,843
Tuition and Fees	21,333	0	0	21,333
Rent	25	0	0	25
Extracurricular Activities	0	0	70,516	70,516
Gifts and Donations	6,596	0	0	6,596
Customer Sales and Services	0	0	279,192	279,192
Miscellaneous	71,485	316	100,585	172,386
Total Revenues	10,018,109	391,126	1,607,971	12,017,206
Expenditures				
Current:				
Instruction:				
Regular	4,388,162	0	186,795	4,574,957
Special	748,802	0	323,013	1,071,815
Vocational	122,954	0	15,856	138,810
Support Services:				
Pupils	353,088	0	20,470	373,558
Instructional Staff	729,325	0	127,002	856,327
Board of Education	34,360	0	0	34,360
Administration	972,830	0	156,267	1,129,097
Fiscal	223,077	9,805	1,757	234,639
Business	6,093	0	0	6,093
Operation and Maintenance of Plant	1,196,362	0	431,084	1,627,446
Pupil Transportation	928,850	0	1,947	930,797
Central	20,684	0	7,662	28,346
Operation of Non-Instructional Services:				
Other	2,762	0	0	2,762
Food Service Operations	0	0	409,237	409,237
Extracurricular Activities	181,525	0	71,140	252,665
Capital Outlay	0	0	19,561	19,561
Debt Service				
Principal Retirement	0	195,002	0	195,002
Interest and Fiscal Charges	0	145,635	0	145,635
Bond Issuance Costs	0	71,558	0	71,558
Total Expenditures	9,908,874	422,000	1,771,791	12,102,665
Excess of Revenues Over (Under) Expenditures	109,235	(30,874)	(163,820)	(85,459)
Other Financing Sources and Uses				
Refunding Bonds Issued	0	2,899,998	0	2,899,998
Payment to Refunded Bond Escrow Agent	0	(3,192,112)	0	(3,192,112)
Premium on Debt Issuance	0	361,057	0	361,057
Transfers In	0	0	125,000	125,000
Transfers Out	(125,000)	0	0	(125,000)
Total Other Financing Sources and Uses	(125,000)	68,943	125,000	68,943
Net Change in Fund Balances	(15,765)	38,069	(38,820)	(16,516)
Fund Balance at Beginning of Year	558,912	397,166	1,183,718	2,139,796
Fund Balance at End of Year	\$543,147	\$435,235	\$1,144,898	\$2,123,280

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds (\$16,516)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	132,355	
Depreciation expense	(851,125)	
Excess of depreciation expense over capital outlay		(718,770)

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	12,697	
Intergovernmental	(21,092)	
		(8,395)

Bond proceeds, payments to refunded bond escrow agents and bond premiums are reported as other financing sources and uses in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

Proceeds of bonds	(2,899,998)	
Payment to Refunded Bond Escrow Agent	292,114	
Premium on bonds	(361,057)	
		(2,968,941)

Governmental funds report bond issuance costs as expenditures, whereas these amounts are deferred and amortized in the statement of activities. 71,558

Governmental funds report bond issuance costs and premiums as expenditures, whereas these amounts are deferred and amortized in in the statement of activities. The difference between the reacquisition price and the net carrying amount of the refunded debt is amortized in the statement of activities.

Amortization of bond issuance costs	(5,115)	
Amortization of deferred amount on refunding	(19,474)	
Amortization of bond premium	25,787	
		1,198

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Principal retirement	195,002	
Payment to refunded bond escrow agent	2,899,998	
Total long-term debt repayment		3,095,000

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences payable	(14,644)	
Decrease in accrued interest payable	11,905	
Accretion on bonds	(21,210)	
Increase in intergovernmental payable	(6,181)	
Total (increase)/decrease		(30,130)

Change in Net Assets of Governmental Activities **(\$574,996)**

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$2,671,381	\$3,471,080	\$3,471,088	\$8
Intergovernmental	6,340,915	6,403,816	6,403,831	15
Interest	32,676	33,000	43,418	10,418
Tuition and Fees	17,822	17,999	21,187	3,188
Rent	25	25	25	0
Gifts and Donations	6,535	6,600	6,596	(4)
Miscellaneous	70,614	69,295	72,736	3,441
	<u>9,139,968</u>	<u>10,001,815</u>	<u>10,018,881</u>	<u>17,066</u>
Total Revenues				
Expenditures:				
Current:				
Instruction:				
Regular	4,555,101	4,888,291	4,313,016	575,275
Special	614,208	659,710	734,561	(74,851)
Vocational	121,276	130,260	122,121	8,139
Other	18,621	20,000	38,960	(18,960)
Support Services:				
Pupils	330,172	341,045	356,162	(15,117)
Instructional Staff	586,953	630,435	731,993	(101,558)
Board of Education	27,372	29,400	38,091	(8,691)
Administration	871,744	935,773	963,317	(27,544)
Fiscal	218,921	230,515	256,379	(25,864)
Business	9,310	10,000	6,093	3,907
Operation and Maintenance of Plant	1,127,820	1,173,608	1,239,387	(65,779)
Pupil Transportation	976,508	905,499	925,596	(20,097)
Central	4,655	5,000	20,624	(15,624)
Extracurricular Activities	159,206	171,000	178,433	(7,433)
Capital Outlay	6,145	6,600	6,800	(200)
	<u>9,628,012</u>	<u>10,137,136</u>	<u>9,931,533</u>	<u>205,603</u>
Total Expenditures				
Excess of Revenues Over (Under) Expenditures	<u>(488,044)</u>	<u>(135,321)</u>	<u>87,348</u>	<u>222,669</u>
Other Financing Sources (Uses):				
Transfers Out	(121,966)	(131,000)	(125,000)	6,000
Refund of Prior Year Expenditures	4,075	4,115	4,115	0
Advances In	24,748	24,994	25,000	6
Advances Out	(3,165)	(34,000)	(74,000)	(40,000)
	<u>(96,308)</u>	<u>(135,891)</u>	<u>(169,885)</u>	<u>(33,994)</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	(584,352)	(271,212)	(82,537)	188,675
Fund Balance at Beginning of Year	1,171,353	1,171,353	1,171,353	0
Prior Year Encumbrances Appropriated	190,055	190,055	190,055	0
	<u>\$777,056</u>	<u>\$1,090,196</u>	<u>\$1,278,871</u>	<u>\$188,675</u>
Fund Balance at End of Year				

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,710	\$42,840
Liabilities		
Undistributed Monies	0	\$42,840
Total Liabilities	0	\$42,840
Net Assets		
Held in Trust for Scholarships	11,710	
Total Net Assets	\$11,710	

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Private Purpose Trust
	Scholarship
Additions	
Interest	\$146
Deductions	
Payments in Accordance with Trust Agreements	500
Change in Net Assets	(354)
Net Assets at Beginning of Year	12,064
Net Assets at End of Year	\$11,710

See Accompanying Notes to the Basic Financial Statements

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

East Clinton Local School District, Clinton County, Ohio (the District), is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board of Education (five members) and provides educational services as authorized by State statute and federal guidelines.

The Board controls the District's four instructional support facilities staffed by 82 non-certified employees, 111 teaching personnel and 7 administrative employees providing education to 1,568 students.

Reporting Entity

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

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

The District participates in seven organizations, five of which are defined as jointly governed organizations, and two as insurance purchasing pools. These organizations are the Miami Valley Educational Computer Association (MVECA), the Hopewell Special Education Regional Resource Center (Hopewell), the Great Oaks Institute of Technology and Career Development, the Southern Buckeye Conference, the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan and the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of East Clinton Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis Of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

Governmental Fund Types:

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

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bond principal and interest and certain other long-term obligations when the District is obligated for the payment.

The other governmental funds of the District account for grants and other resources and capital projects of the District, whose use is restricted to a particular purpose.

Fiduciary Fund Types:

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

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available for advance, student fees, grants and accrued interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Budgetary Process

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

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Cash Equivalents

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

During fiscal year 2004, the District's investments were limited to certificates of deposit, money market mutual funds, a repurchase agreement, Federal Home Loan Bank Bonds, Federal Farm Credit Bank Bonds and Federal National Mortgage Association Bonds. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$13,851, which includes \$6,807 assigned from other District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of purchased food held for resale and consumable supplies.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for budget stabilization. See Note 18 for additional information regarding set-asides.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

All capital assets of the District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20-40 years
Furniture, Fixtures and Equipment	5-20 years
Vehicles	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees have accumulated leave are paid.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences, contractually required pension obligations and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds are recognized as a liability on the government-wide financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include resources restricted for music and athletic programs and student activities, and federal and state grants restricted to expenditures for specified purposes.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a 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 have been established for encumbrances, property taxes, budget stabilization and library materials and services.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for library materials and services represents restricted contributions to the Permanent Fund.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Transactions

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

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principle

For fiscal year 2004, the District has implemented *GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units."* This Statement further defines the guidelines of *GASB Statement No. 14, "The Financial Reporting Entity."* The implementation of this new statement has no effect on the District's financial statements for fiscal year 2003.

B. Restatement of Net Assets

During 2004, the District had an independent appraisal firm perform a valuation of the historical cost of certain capital assets. The valuation resulted in a restatement of capital assets at June 30, 2003, which had the following effect on the net assets of the District:

	Governmental Activities
Net Assets, June 30, 2003, as reported	\$15,713,773
Restatement of Capital Assets	2,223,992
Net Assets, June 30, 2003, as restated	\$17,937,765

4. ACCOUNTABILITY

The following funds had deficit fund balances for the fiscal year ended June 30, 2004:

	Amount
Special Revenue Funds:	
Food Service	\$37,957
Summer School	5,942
Career Education	78
Title I	38,973

The deficits in these funds were created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$15,765)
Adjustments:	
Revenue Accruals	39,400
Expenditure Accruals	93,730
Decrease in Fair Value of Investments	(34,513)
Encumbrances	(116,389)
Advances	(49,000)
Budget Basis	<u><u>(\$82,537)</u></u>

6. DEPOSITS AND INVESTMENTS

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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 accounts, including passbook accounts.

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty - five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee 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 No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."*

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$70,308 and the bank balance was \$234,902. Of the bank balance, \$194,689 was covered by federal depository insurance and \$34,902 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year-end. Category 1 includes investments that are 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 investments for which securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. Money market mutual funds are unclassified since they are not evidenced by securities that exist in physical or book entry form.

	Unclassified	Category 3	Carrying and Fair Value
Money Market Mutual Funds	\$687,762	\$0	\$687,762
Repurchase Agreement	0	400,372	400,372
Federal Home Loan Bank Bonds	0	1,545,545	1,545,545
Federal Farm Credit Bank Bonds	0	192,125	192,125
Federal National Mortgage Association Bonds	0	149,039	149,039
Totals	<u>\$687,762</u>	<u>\$2,287,081</u>	<u>\$2,974,843</u>

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits or investments presented above per GASB Statement No. 3 is as follows:

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$3,045,151	\$0
Investments:		
Money Market Mutual Funds	(687,762)	687,762
Repurchase Agreement	(400,372)	400,372
Federal Home Loan Bank Bonds	(1,545,545)	1,545,545
Federal Farm Credit Bank Bonds	(192,125)	192,125
Federal National Mortgage Association Bonds	(149,039)	149,039
GASB Statement No. 3	\$70,308	\$2,974,843

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid 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.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Clinton and Highland Counties. The County Auditors periodically advance to the 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.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. PROPERTY TAXES (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$277,272 in the General Fund, \$27,738 in the Debt Service Fund and \$5,648 in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$245,843 in the General Fund, \$31,283 in the Debt Service Fund and \$5,138 in the Classroom Facilities Maintenance Special Revenue Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$96,818,670	81.97%	\$100,033,050	71.30%
Public Utility	6,606,510	5.59%	6,449,070	4.60%
Tangible Personal Property	14,693,724	12.44%	33,819,932	24.10%
Total Assessed Value	\$118,118,904	100.00%	\$140,302,052	100.00%
Tax rate per \$1,000 of assessed valuation		\$36.38		\$35.98

8. RECEIVABLES

Receivables at June 30, 2004, consisted of accrued interest, accounts, interfund, intergovernmental grants and property taxes. All receivables are considered collectible in full and will be received in one year, due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. RECEIVABLES (Continued)

	Amounts
<i>Governmental Activities</i>	
Federal Lunch Reimbursements	\$16,241
Summer School Grant	5,256
Title I Grant	23,496
Title II-A Grant	12,206
Title VI-B - Grant	40,974
Title VI Grant	3,249
Preschool Disabilities Grant	486
Total Intergovernmental Receivables	\$101,908

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance at 6/30/03	Additions	Deductions	Balance at 6/30/04
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$339,476	\$0	\$0	\$339,476
Capital Assets Being Depreciated:				
Buildings and Improvements	22,139,144	11,200	0	22,150,344
Furniture, Fixtures and Equipment	4,299,324	5,775	0	4,305,099
Vehicles	1,121,177	115,380	(181,175)	1,055,382
Total Capital Assets Being Depreciated	27,559,645	132,355	(181,175)	27,510,825
Less Accumulated Depreciation:				
Building and Improvements	(4,952,463)	(590,072)	0	(5,542,535)
Furniture and Equipment	(3,088,932)	(169,411)	0	(3,258,343)
Vehicles	(680,043)	(91,642)	181,175	(590,510)
Total Accumulated Depreciation	(8,721,438)	(851,125) *	181,175	(9,391,388)
Total Capital Assets Being Depreciated, Net	18,838,207	(718,770)	0	18,119,437
Governmental Activities Capital Assets, Net	\$19,177,683	(\$718,770)	\$0	\$18,458,913

* Depreciation expense was charged to governmental functions as follows:

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. CAPITAL ASSETS (Continued)

Instruction:	
Regular	\$426,675
Special	73,416
Vocational	22,537
Support Services:	
Instructional Staff	37,577
Administration	50,153
Operation and Maintenance of Plant	44,616
Pupil Transportation	91,928
Operation of Non-Instructional Services	64,864
Extracurricular Activities	39,359
Total Depreciation Expense	<u><u>\$851,125</u></u>

10. RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted with Marsh/Selective for property and fleet insurance, and Nationwide Insurance Company for liability insurance. The type and amount of coverage provided at June 30, 2004 follows:

Building and Contents - replacement cost (\$2,500 deductible)	\$26,357,317
Inland Marine Coverage (\$1,000 deductible) -	
Each location	977,000
Valuable Papers	100,000
Automobile Liability (\$1,000 deductible)	2,000,000
Uninsured Motorist	1,000,000
General Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000

Settled claims have not exceeded this coverage in any of the past three years. There has been no significant change in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2004 the District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP, an insurance purchasing pool - See Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the 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 workers' 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.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. RISK MANAGEMENT (Continued)

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The school districts apply for participation each year. The firm of Integrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical and Dental Benefits

For fiscal year 2004, the District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), and insurance purchasing pool (Note 17). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school district is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its medical and dental insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation is limited to school districts that can meet the MBP's selection criteria.

11. PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, 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 \$135,881, \$195,615 and \$88,955, respectively; 43.12 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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 20, 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. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$689,474, \$633,118 and \$427,860, respectively; 84.49 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,574 made by the District and \$14,852 made by the plan members.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. PENSION PLANS (Continued)

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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, one of the District's members of the Board of Education has elected Social Security. The District's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' 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.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$53,036 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio 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 fiscal years of qualifying service credit, and to 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, 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 was established at \$25,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$100,812.

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 the annual health care expenses. Expenses for health care for the fiscal year ended 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.

**EAST CLINTON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. EMPLOYEE BENEFITS

A. Compensated Absences

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

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 188 days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 47 days.

B. Insurance Benefits

The District provides medical insurance coverage to most employees. The District pays 90 percent of the premium for single coverage and 70 percent of the premium for family coverage through Anthem Blue Cross Blue Shield. The District provides dental insurance coverage to most employees through CoreSource and pays 100 percent of the premium. Medical and dental benefits are paid through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 17).

The District provides life insurance to all employees, except substitutes, through CoreSource, and pays 100 percent of the premium.

14. LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/03	Amounts Due in One Year
<u>Governmental Activities:</u>					
School Improvement Bonds					
1980 7.75%	\$75,000	\$0	\$75,000	\$0	\$0
School Improvement Bonds					
1995 6.124%	3,020,000	0	3,020,000	0	0
2003 School Improvement					
Refunding Bonds:					
Serial Bonds 1.50%-4.10%	0	2,755,000	0	2,755,000	215,000
Capital Appreciation Bonds 16.56%	0	144,998	0	144,998	0
Accretion on Capital					
Appreciation Bonds	0	21,210		21,210	0
Premium on Debt Issuance	0	361,057	25,787	335,270	
Deferred Amount on Refunding	0	(292,114)	(19,474)	(272,640)	
Compensated Absences Payable	339,321	72,818	58,174	353,965	29,544
Total Governmental Activities					
Long-Term Obligations	<u>\$3,434,321</u>	<u>\$3,062,969</u>	<u>\$3,159,487</u>	<u>\$3,337,803</u>	<u>\$244,544</u>

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

School Improvement Bonds 1980

On March 1, 1980, the District issued \$1,640,000 in voted general obligation bonds for the purpose of making improvements to the District's facilities. The bonds were issued for a twenty-three year period with final maturity on December 1, 2003. The bonds were retired from the Debt Service Fund.

School Improvement Bonds 1995

On March 1, 1995, the District issued \$3,800,000 in voted general obligation bonds for the purpose of making improvements to the District's facilities. The bonds were issued for a twenty-three year period with final maturity on December 1, 2017. The bonds were refunded in fiscal year 2004.

School Improvement Refunding Bonds 2003

On October 28, 2003, the District issued \$2,899,998 in general obligation bonds for the purpose of refunding the 1995 School Improvement Bonds. Of these bonds, \$2,755,000 are serial bonds and \$144,998 are capital appreciation bonds. The bonds were issued for a fourteen year period, with final maturity in December 2017. The bonds will be retired from the Debt Service Fund.

The serial bonds maturing December 1, 2016 and December 1, 2017 are subject to optional redemption, in whole or in part on any date in any order of maturity on or after December 1, 2013 at par, which is 100% of the face value of the bonds.

The capital appreciation bonds are not subject to prior redemption. They will mature in fiscal years 2014 through 2016. The maturity amount of the capital appreciation bonds will be \$275,000 in 2014 and \$280,000 per year in 2015 and 2016. For fiscal year 2004, the capital appreciation bonds were accreted \$21,210.

The refunding resulted in a difference of \$292,114 between the net carrying amount of the debt and the acquisition price. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The District's total debt service payments decreased by \$234,708 as a result of the advance refunding. The District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$20,700.

Compensated absences will be paid from the General, Food Service, Title VI-B, Title I, and Class Size Reduction Funds.

The District's voted legal debt margin was \$10,165,037 with an unvoted debt margin of \$140,302 at June 30, 2004.

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

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

School Improvement Refunding Bonds 2003

Fiscal Year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Bonds Principal	Capital Appreciation Bonds Accretion	Total
2005	\$215,000	\$84,998	\$0	\$0	\$299,998
2006	230,000	75,235	0	0	305,235
2007	230,000	70,635	0	0	300,635
2008	240,000	66,035	0	0	306,035
2009	240,000	61,235	0	0	301,235
2010-2014	1,030,000	176,723	55,575	219,425	1,481,723
2015-2018	570,000	34,980	89,423	470,577	1,164,980
Total	<u>\$2,755,000</u>	<u>\$569,841</u>	<u>\$144,998</u>	<u>\$690,002</u>	<u>\$4,159,841</u>

15. INTERFUND ACTIVITY

A. Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

Transfer To	Transfer From General Fund
Non-Major Governmental Fund	\$125,000

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

B. Interfund Receivables/Payables

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

Payable	Receivable General Fund
All Other Nonmajor Governmental Funds	\$82,571

The amounts due to the General Fund from Other Nonmajor Governmental Funds are the result of the District moving unrestricted balances to support the operations of the Food Service Fund. The General Fund will be reimbursed when funds become available in the Food Service Fund.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Miami Valley Educational Computer Association (MVECA)

The Miami Valley Educational Computer Association (MVECA) is a governmental jointly governed organization consisting of 24 school districts. MVECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MVECA consists of five superintendents and two treasurers of member school districts, with four of the five superintendents and both treasurers elected by a majority vote of all member school districts, except the Green County Career Center. The fifth superintendent is from the Green County Career Center. The District paid MVECA \$26,699 for services provided during the fiscal year. Financial information relating to MVECA can be obtained from Gary Bosserman, Director, 320 East Enon Road, Yellow Springs, OH 45387.

B. Hopewell Special Education Regional Resource Center (Hopewell)

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the county board of education, a representative from the Clinton-Fayette-Highland Educational Service District, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and Federal and State grants. To obtain financial information write to Hopewell at the Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, OH 45177.

C. Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development 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 districts' elected boards, which possess its own budgetary and taxing authority. Great Oaks offers career technical programs to high school juniors and seniors of the District. To obtain financial information write to the Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, OH 45241-1581.

D. Southern Buckeye Conference

Southern Buckeye Conference provides sporting events for the students of the participating districts. The governing board consists of each participating high school's principal. The Southern Buckeye Conference does not acquire financial resources and in no way will it cause financial stress on the District.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

E. Southwestern Ohio Educational Purchasing Council (SOEPC)

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2004, the District paid \$1,012 to SOEPC. To obtain financial information, write to Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

17. INSURANCE PURCHASING POOLS

A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by participating members.

18. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year ended June 30, 2004, the District was no longer required to set aside funds in the budget reserve, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

18. SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2003	(\$311,479)	\$0	\$87,029
Current Year Set-aside Requirement	206,433	206,433	0
Current Year Offsets	0	(220,848)	0
Qualifying Disbursements	(266,538)	0	0
Totals	<u>(371,584)</u>	<u>(14,415)</u>	<u>87,029</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$87,029</u>
Required Set-aside Balances Carried Forward to FY 2004	<u>(\$371,584)</u>	<u>\$0</u>	<u>\$87,029</u>

The District had offsets for capital acquisition during the year that reduced the set-aside amount below zero. This extra amount may not be used to reduce the set-aside requirement of future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The District had qualifying disbursements for textbooks during the year that reduced the set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years.

19. 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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a schoolfunding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

20. CONTINGENT LIABILITIES

Grants:

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2004.

21. SUBSEQUENT EVENT

On November 2, 2004, the District passed a 3 mill permanent improvement levy.

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**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	0	\$23,448	\$0	\$23,448
National School Breakfast Program	05-PU-2003 05-PU-2004	10.553	4,132 14,817	-----	4,132 14,817	-----
National School Lunch	LLP4-2003	10.555	<u>104,165</u>	-----	<u>104,165</u>	-----
Total U.S. Department of Agriculture			<u>123,114</u>	<u>23,448</u>	<u>123,114</u>	<u>23,448</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education.</i>						
Education Consolidation and Improvement Act						
Title I - FY 03	C1-S1-03	84.010	23,491	-----	32,903	-----
Title I - FY 04	C1-S1-04	84.010	<u>214,303</u>	-----	<u>230,611</u>	-----
<i>Total Title I</i>			237,794	0	263,514	0
Special Education Cluster:						
Special Education Grants to States						
Title VI B - FY 03	6B-SF-04	84.027	9,617	-----	17,264	-----
Title VI B - FY	6B-SF-03	84.027	134,496	-----	148,583	-----
Access Cash	6B-SB-03	84.027	22,703	-----	36,845	-----
Access Cash FY 04	6B-SB-03	84.027	7,350	-----	2,280	-----
Educational Handicapped Preschool						
Preschool Subsidy - FY 03	PGS1-02	84.173	(153)	-----	0	-----
Preschool Subsidy - FY 04	PGS1-04	84.173	<u>2,636</u>	-----	<u>2,189</u>	-----
<i>Total Special Education Cluster</i>			176,649	0	207,161	0
Drug Free Schools						
Drug Free Education	DR-S1-03	84.186	(17)	-----	-	-----
Drug Free Education - Subsidy - FY 04	DR-S1-03	84.186	<u>3,304</u>	-----	<u>2,070</u>	-----
<i>Total Drug Free School Grants</i>			3,304	0	2,070	0
Innovative Educational Program Strategies						
Educational Program Strategies	C2-S1-03	84.298	(281)	-----	0	-----
Educational Program Strategies	C2-S1-04	84.298	<u>6,945</u>	-----	<u>8,573</u>	-----
<i>Total Innovative Ed</i>			6,664	0	8,573	0
Additional Programs:						
Class Size Reduction - FY 01	TR-S1-03	84.367	(2,195)	-----	6,701	-----
Improving Teacher Quality	TR-S1-04	84.367	65,815	-----	60,509	-----
Assistive Technology - Round 3	AT-S3-02	84.352A	(278)	-----	4,400	-----
Assistive Technology - Round 4	AT-S4-02	84.352A	(105)	-----	4,169	-----
Technology Title II - D	TJ-S1-03	84.318	(651)	-----	0	-----
Technology Title II - D	TJ-S1-04	84.318	<u>4,309</u>	-----	<u>2,796</u>	-----
Total Additional Programs			66,895	0	78,575	0
Total Department of Education			<u>491,306</u>	<u>0</u>	<u>559,893</u>	<u>0</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$614,420</u>	<u>\$23,448</u>	<u>\$683,007</u>	<u>\$23,448</u>

The accompanying notes to this schedule are an integral part of this schedule.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B— FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

NOTE C – NEGATIVE RECEIPTS

Negative receipts on the Schedule of Federal Awards Expenditures are a result of program transfers within the Ohio Department of Education.



Auditor of State Betty Montgomery

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

East Clinton Local School District
Clinton County
97 College Street
Lees Creek, Ohio 45138

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Clinton Local School District, Clinton County, Ohio (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 June 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 6, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 6, 2005, we reported another matter related to noncompliance we deemed immaterial.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

East Clinton Local School District
Clinton County
Independent Accountants' Report on Internal Control Over
Financial Reporting and On Compliance and Other
Matters Required By *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2005



Auditor of State Betty Montgomery

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

East Clinton Local School District
Clinton County
97 College Street
Lees Creek, Ohio 45138

To the Board of Education:

Compliance

We have audited the compliance of East Clinton Local School District, Clinton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the East Clinton Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the District's management, elected officials, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2005

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
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)(ii)	Were there any other reportable 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)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I, CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON 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
JULY 5, 2005**