



**Auditor of State
Betty Montgomery**

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Elgin Local School District
Marion County
4616 LaRue-Prospect Road West
Marion, Ohio 43302-8859

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the Elgin Local School District, Marion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the Elgin Local School District, Marion County, Ohio, as of June 30, 2004, and the respective changes in financial position, and the 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 February 28, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is presented for additional analysis and is not a required part of the basic financial statements. We subjected this information 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

February 28, 2005

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Elgin Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$1,186,703, a little over 18 percent, and a rather significant change from the prior fiscal year. The School District did not have to draw upon the cash carryover amounts so heavily in prior fiscal years. The carryover was reduced by more than \$1 million in fiscal year 2004.

General revenues accounted for \$9,466,114, or 77 percent of all revenues, and reflects the School District's significant dependence on property taxes and unrestricted state entitlements.

In June 2002, the Ohio School Facilities Commission approved the School District's facilities plan. A proposed 9.35 mill levy to generate approximately \$22 million for the School District's portion of construction costs for a new high school and renovations to the current high school for junior high use failed on the March 2004 ballot. This is the third time the levy has failed.

In fiscal year 2004, the School District sponsored the Elgin Digital Academy, an online internet school. Elgin Digital Academy is reflected as a component unit in the School District's financial statements.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Elgin Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the School District discloses a single type of activity, governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

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

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1
Net Assets

	Governmental Activities	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$8,466,977	\$9,567,185
Capital Assets, Net	1,806,651	1,919,410
Total Assets	10,273,628	11,486,595
<u>Liabilities:</u>		
Current and Other Liabilities	4,319,715	4,322,373
Long-Term Liabilities	719,555	743,161
Total Liabilities	5,039,270	5,065,534
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,806,651	1,907,769
Restricted	456,540	502,678
Unrestricted	2,971,167	4,010,614
Total Net Assets	\$5,234,358	\$6,421,061

Total assets decreased \$1,212,967, a drop of 10.5 percent. Almost all of this change can be attributed to cash carryover spending. This spending resulted in a corresponding decrease in unrestricted net assets.

Table 2 reflects the changes in net assets from the prior fiscal year.

Table 2
Change in Net Assets

	Governmental Activities	
	2004	2003
<u>Revenues</u>		
Program Revenues		
Charges for Services and Sales	\$1,672,101	\$1,044,973
Operating Grants, Contributions, and Interest	1,048,973	1,004,280
Capital Grants, Contributions, and Interest	30,119	60,566
Total Program Revenues	2,751,193	2,109,819

(continued)

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(continued)

	Governmental Activities	
	2004	2003
<u>Revenues (continued)</u>		
<u>General Revenues</u>		
Property Taxes	\$4,063,338	\$4,083,305
Grants and Entitlements	5,229,716	5,318,305
Interest	51,380	84,013
Gifts and Donations	11,307	0
Miscellaneous	110,373	85,772
Total General Revenues	<u>9,466,114</u>	<u>9,571,395</u>
Total Revenues	<u>12,217,307</u>	<u>11,681,214</u>
<u>Expenses</u>		
<u>Instruction:</u>		
Regular	6,772,188	5,753,508
Special	864,633	666,238
Vocational	275,280	275,204
Adult/Continuing	3,869	4,505
<u>Support Services:</u>		
Pupils	551,547	571,279
Instructional Staff	447,064	459,137
Board of Education	34,411	26,478
Administration	1,155,603	1,067,164
Fiscal	337,973	321,632
Operation and Maintenance of Plant	1,340,561	1,028,316
Pupil Transportation	747,062	715,895
Non-Instructional Services	556,273	528,662
Extracurricular Activities	316,774	304,190
Interest and Fiscal Charges	772	2,622
Total Expenses	<u>13,404,010</u>	<u>11,724,830</u>
Decrease in Net Assets	<u>(\$1,186,703)</u>	<u>(\$43,616)</u>

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Program revenues made up approximately 23 percent of total revenues and consist of charges for tuition and fees, food service sales, extracurricular activities admissions, and restricted intergovernmental revenues. Program revenues were considerably greater in fiscal year 2004, a good portion of which was an increase in tuition resulting from open enrollment. During fiscal year 2003, open enrollment was recorded by most school districts at the net amount of revenue or expense. A recommendation was made that all school districts in Ohio begin recording open enrollment revenues and expenses at the gross amount to reflect a truer picture of open enrollment activities. As a result of this change in accounting practice, the increase in charges for services is offset by a corresponding increase in regular instruction expenses. Operation and maintenance expenses also had a comparatively large increase from the prior fiscal year. These costs were the result of architectural studies performed for building construction activities. However, no building construction is currently anticipated as a result of multiple levy failures.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Instruction:				
Regular	\$6,772,188	\$5,753,508	\$5,397,545	\$5,045,737
Special	864,633	666,238	222,478	256,378
Vocational	275,280	275,204	236,645	226,030
Adult/Continuing	3,869	4,505	3,869	4,505
Support Services:				
Pupils	551,547	571,279	538,692	363,472
Instructional Staff	447,064	459,137	447,064	459,137
Board of Education	34,411	26,478	34,411	26,478
Administration	1,155,603	1,067,164	1,155,603	1,061,164
Fiscal	337,973	321,632	337,973	321,632
Operation and Maintenance of Plant	1,340,561	1,028,316	1,328,561	1,014,316
Pupil Transportation	747,062	715,895	724,853	670,828
Non-Instructional Services	556,273	528,662	(7,810)	(18,880)
Extracurricular Activities	316,774	304,190	232,161	181,592
Interest and Fiscal Charges	772	2,622	772	2,622
Total Expenses	<u>\$13,404,010</u>	<u>\$11,724,830</u>	<u>\$10,652,817</u>	<u>\$9,615,011</u>

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

A review of the above table demonstrates the substantial dependence upon tax revenues and unrestricted state entitlements for governmental activities. For all governmental activities, support from general revenues is 79 percent. General revenues provided very similar support in the prior fiscal year. For non-instructional services, program revenues exceeded the expenses by \$7,810. This is primarily due to cafeteria sales, state and federal subsidies, and donated commodities for food service.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$12,224,673 and expenditures of \$13,312,550. The decrease in fund balance of \$1,087,877 is the result of the need to spend from the School District's cash carryover balance.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During fiscal year 2004, the School District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$10,726,323, were below original budgeted revenues, in the amount of \$11,453,700. The difference was primarily due to conservative estimates in revenues for state foundation, parity aid, and open enrollment.

Final expenditures were budgeted at \$13,278,642 while actual expenditures were \$12,847,527. The difference was fairly insignificant overall.

Actual General Fund revenues were less than expenditures by \$1,834,737. As discussed earlier, this is due to the need to spend carryover balances for current year operations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$1,806,651 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of \$112,759. The decrease is largely the result of depreciation expense exceeding additions. The major additions consisted of a school bus and a van. The School District also disposed of a school bus in fiscal year 2004. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

At June 30, 2004, the School District's only long-term obligation was for compensated absences. Compensated absences will be paid from the General Fund and the Food Service, Education Management Information Systems, and Title I special revenue funds.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

At June 30, 2003, the School District's overall legal debt margin was \$13,334,439 with an unvoted debt margin of \$148,160. For further information regarding the School District's long-term obligations, refer to Note 14 to the basic financial statements.

Current Issues

Elgin Local School District is a residential/farming community and is experiencing some moderate residential growth. As a result, the School District expects some growth in both residential students and open enrollment. The School District's leading employer, Whirlpool Corporation, has continued to have a strong labor force.

On December 15, 2003, the Board of Education voted unanimously to place a 9.35 mill levy on the March 2004 ballot to construct a new high school (9-12) and renovate the current high school for junior high use (6-8) as well as a .5 mill levy for operating expenses. Unfortunately the levy failed. The levy would have generated approximately \$22 million dollars over a twenty-seven year period as the School District's part of the Ohio School Facilities Commission approved plan. The revenue generated by the 9.35 mill levy would have been limited to construction, not day-to-day operations. The levy would have also allowed for the conversion of the junior high building in Green Camp to an elementary building (4-5) and make the current elementary building K-3 until the School District would become eligible for additional State funding in 6 to 10 years.

The School District is continuing to address the needs of the exceptional students in our School District (special education and gifted education). While the District has tried to be very efficient in sharing programs with other school districts, the costs of this sharing has made it necessary to evaluate those programs and look for alternatives to not only keep these students in the School District but to use District money more efficiently.

The School District is creating a land lab to be used for biology classes to study the natural habitat of plant and animal life. This lab is located on the grounds of the Elgin High School and was made possible with the help of Mr. Beaver and Mr. Long (science and biology teachers) by applying for and receiving a \$60,000 State grant. The School District has completed the pond project. Mr. Beaver has received approval for an Ohio Environmental Education Fund Grant, in the amount of \$46,070.

On October 20, 2003, the Elgin Digital Academy (EDA), a conversion school which provides education opportunities through distance learning technologies, began operations. Elgin Local School District is the EDA's sponsoring government and EDA's five member Board of Directors is appointed by Elgin Local School District's Board of Education. EDA is reported as a discretely presented component unit on Elgin Local School District's financial statements for fiscal year 2004.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Ethel Wheeler, Treasurer, Elgin Local School District, 4616 Larue-Prospect Road, Marion, Ohio 43302.

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**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF NET ASSETS
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2004**

	Primary Government	Component Unit
	Governmental Activities	Elgin Digital Academy
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$4,054,709	20,152
Cash and Cash Equivalents		
with Fiscal Agent	22	0
Accounts Receivable	8,510	0
Intergovernmental Receivable	39,568	0
Prepaid Items	176,225	0
Inventory Held for Resale	6,794	0
Materials and Supplies Inventory	79,912	0
Property Taxes Receivable	4,101,237	0
Nondepreciable Capital Assets	242,816	0
Depreciable Capital Assets, Net	1,563,835	0
Total Assets	10,273,628	20,152
<u>Liabilities:</u>		
Accounts Payable	28,266	0
Accrued Wages and Benefits Payable	1,151,507	0
Intergovernmental Payable	289,377	5,691
Deferred Revenue	2,850,565	0
Long-Term Liabilities:		
Due Within One Year	58,123	0
Due in More Than One Year	661,432	0
Total Liabilities	5,039,270	5,691
<u>Net Assets:</u>		
Invested in Capital Assets	1,806,651	0
Restricted For:		
Debt Service	41	0
Capital Projects	42,401	0
Set Asides	276,265	0
Other Purposes	137,833	0
Unrestricted	2,971,167	14,461
Total Net Assets	\$5,234,358	\$14,461

See Accompanying Notes to Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**STATEMENT OF ACTIVITIES
PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$6,772,188	\$1,245,169	\$128,968	\$506
Special	864,633	0	642,155	0
Vocational	275,280	0	38,635	0
Adult/Continuing	3,869	0	0	0
Support Services:				
Pupils	551,547	0	12,855	0
Instructional Staff	447,064	0	0	0
Board of Education	34,411	0	0	0
Administration	1,155,603	0	0	0
Fiscal	337,973	0	0	0
Operation and Maintenance of Plant	1,340,561	0	0	12,000
Pupil Transportation	747,062	0	4,596	17,613
Non-Instructional Services	556,273	349,876	214,207	0
Extracurricular Activities	316,774	77,056	7,557	0
Interest and Fiscal Charges	772	0	0	0
Total Governmental Activities	\$13,404,010	\$1,672,101	\$1,048,973	\$30,119
<u>Component Unit</u>				
Elgin Digital Academy	\$237,910	\$0	\$4,584	\$0

General Revenues:

Property Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year
Net Assets at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Primary Government	Component Unit
Governmental Activities	Elgin Digital Academy
(\$5,397,545)	\$0
(222,478)	0
(236,645)	0
(3,869)	0
(538,692)	0
(447,064)	0
(34,411)	0
(1,155,603)	0
(337,973)	0
(1,328,561)	0
(724,853)	0
7,810	0
(232,161)	0
(772)	0
(10,652,817)	0
0	(233,326)
4,063,338	0
5,229,716	196,163
51,380	224
11,307	0
110,373	0
9,466,114	196,387
(1,186,703)	(36,939)
6,421,061	51,400
<u>\$5,234,358</u>	<u>\$14,461</u>

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,502,420	\$276,024	\$3,778,444
Cash and Cash Equivalents			
with Fiscal Agent	0	22	22
Accounts Receivable	7,279	1,231	8,510
Intergovernmental Receivable	25,453	14,115	39,568
Prepaid Items	172,555	3,670	176,225
Inventory Held for Resale	0	6,794	6,794
Materials and Supplies Inventory	78,392	1,520	79,912
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	276,265	0	276,265
Property Taxes Receivable	4,101,237	0	4,101,237
Total Assets	<u>\$8,163,601</u>	<u>\$303,376</u>	<u>\$8,466,977</u>
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities</u>			
Accounts Payable	\$19,250	\$9,016	\$28,266
Accrued Wages and Benefits Payable	1,118,518	32,989	1,151,507
Intergovernmental Payable	183,073	5,312	188,385
Deferred Revenue	3,096,576	526	3,097,102
Total Liabilities	<u>4,417,417</u>	<u>47,843</u>	<u>4,465,260</u>
<u>Fund Balances:</u>			
Reserved for Property Taxes	1,012,643	0	1,012,643
Reserved for Textbooks	5,436	0	5,436
Reserved for Capital Improvements	227,719	0	227,719
Reserved for Budget Stabilization	43,110	0	43,110
Reserved for Encumbrances	559,370	24,066	583,436
<u>Unreserved, Reported in:</u>			
General Fund	1,897,906	0	1,897,906
Special Revenue Funds	0	189,025	189,025
Debt Service Fund	0	41	41
Capital Projects Funds	0	42,401	42,401
Total Fund Balances	<u>3,746,184</u>	<u>255,533</u>	<u>4,001,717</u>
Total Liabilities and Fund Balances	<u>\$8,163,601</u>	<u>\$303,376</u>	<u>\$8,466,977</u>

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total Governmental Fund Balances		\$4,001,717
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,806,651
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	7,402	
Property Taxes Receivable	239,135	
	<hr/>	246,537
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.		(100,992)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Compensated Absences Payable		<hr/> (719,555)
Net Assets of Governmental Activities		<hr/> <hr/> \$5,234,358

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$4,039,804	\$0	\$4,039,804
Intergovernmental	5,588,202	693,810	6,282,012
Interest	51,380	1,443	52,823
Tuition and Fees	1,243,786	0	1,243,786
Extracurricular Activities	9,840	66,283	76,123
Charges for Services	0	327,973	327,973
Gifts and Donations	0	20,680	20,680
Miscellaneous	112,286	69,186	181,472
Total Revenues	<u>11,045,298</u>	<u>1,179,375</u>	<u>12,224,673</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	6,632,324	137,698	6,770,022
Special	735,598	131,277	866,875
Vocational	272,236	1,330	273,566
Adult/Continuing	0	3,869	3,869
Support Services:			
Pupils	342,749	221,044	563,793
Instructional Staff	408,431	40,650	449,081
Board of Education	34,455	0	34,455
Administration	1,139,170	3,223	1,142,393
Fiscal	333,590	2,143	335,733
Operation and Maintenance of Plant	1,110,382	12,000	1,122,382
Pupil Transportation	727,108	941	728,049
Non-Instructional Services	0	557,844	557,844
Extracurricular Activities	230,218	77,279	307,497
Capital Outlay	136,698	7,880	144,578
Debt Service:			
Principal Retirement	0	11,641	11,641
Interest and Fiscal Charges	0	772	772
Total Expenditures	<u>12,102,959</u>	<u>1,209,591</u>	<u>13,312,550</u>
Excess of Revenues			
Under Expenditures	<u>(1,057,661)</u>	<u>(30,216)</u>	<u>(1,087,877)</u>
<u>Other Financing Sources (Uses):</u>			
Transfers In	0	34,671	34,671
Transfers Out	(34,671)	0	(34,671)
Total Other Financing Sources (Uses)	<u>(34,671)</u>	<u>34,671</u>	<u>0</u>
Changes in Fund Balances	(1,092,332)	4,455	(1,087,877)
Fund Balances at Beginning of Year	4,838,516	251,078	5,089,594
Fund Balances at End of Year	<u>\$3,746,184</u>	<u>\$255,533</u>	<u>\$4,001,717</u>

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Changes in Fund Balances - Total Governmental Funds (\$1,087,877)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current year:

Capital Outlay	38,438	
Depreciation	<u>(150,821)</u>	(112,383)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed, resulting in a loss on disposal of capital assets on the statement of activities. (376)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	23,534	
Intergovernmental	357	
Tuition and Fees	(1,674)	
Extracurricular Activities	320	
Charges for Services	11	
Miscellaneous	<u>(29,914)</u>	(7,366)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 11,641

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(2,307)	
Compensated Absences Payable	<u>11,965</u>	9,658

Change in Net Assets of Governmental Activities (\$1,186,703)

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION 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 Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$3,894,258	\$3,894,258	\$4,017,930	\$123,672
Intergovernmental	6,816,710	6,089,293	5,588,202	(501,091)
Interest	90,000	90,000	51,380	(38,620)
Tuition and Fees	578,732	578,772	1,243,786	665,014
Extracurricular Activities	11,000	11,000	9,720	(1,280)
Miscellaneous	63,000	63,000	101,722	38,722
Total Revenues	<u>11,453,700</u>	<u>10,726,323</u>	<u>11,012,740</u>	<u>286,417</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,022,752	6,697,045	6,690,214	6,831
Special	849,380	772,408	731,451	40,957
Vocational	298,200	286,423	270,627	15,796
Support Services:				
Pupils	433,886	412,577	344,600	67,977
Instructional Staff	456,082	438,781	412,708	26,073
Board of Education	34,450	36,450	32,053	4,397
Administration	1,216,884	1,195,046	1,121,408	73,638
Fiscal	366,143	347,543	334,308	13,235
Operation and Maintenance of Plant	1,538,170	1,453,270	1,315,932	137,338
Pupil Transportation	766,667	761,933	726,281	35,652
Extracurricular Activities	234,600	241,950	232,814	9,136
Capital Outlay	127,000	635,216	635,131	85
Total Expenditures	<u>12,344,214</u>	<u>13,278,642</u>	<u>12,847,527</u>	<u>431,115</u>
Excess of Revenues				
Under Expenditures	(890,514)	(2,552,319)	(1,834,787)	717,532
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	0	1,000	0	(1,000)
Other Financing Sources	0	1,000	0	(1,000)
Advances In	0	15,000	87	(14,913)
Advances Out	(45,000)	(1,000)	(87)	913
Transfers In	10,000	5,000	0	(5,000)
Transfers Out	(27,500)	(34,850)	(34,671)	179
Total Other Financing Sources (Uses)	<u>(62,500)</u>	<u>(13,850)</u>	<u>(34,671)</u>	<u>(20,821)</u>
Changes in Fund Balance	(953,014)	(2,566,169)	(1,869,458)	696,711
Fund Balance at Beginning of Year	4,698,184	4,698,184	4,698,184	0
Prior Year Encumbrances Appropriated	210,191	210,191	210,191	0
Fund Balance at End of Year	<u>\$3,955,361</u>	<u>\$2,342,206</u>	<u>\$3,038,917</u>	<u>\$696,711</u>

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$10,031	<u>\$30,866</u>
<u>Liabilities:</u>		
Due to Students	<u>0</u>	<u>\$30,866</u>
<u>Net Assets:</u>		
Held in Trust for Students	31	
Endowment	10,000	
Total Net Assets	<u>\$10,031</u>	

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

<u>Additions:</u>	
Interest	\$100
 <u>Deductions:</u>	
Non-Instructional	100
	<hr/>
Change in Net Assets	0
 Net Assets at Beginning of Year	 10,031
Net Assets at End of Year	<hr/> <hr/> \$10,031

See Accompanying Notes to the Basic Financial Statements

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1960. The School District serves an area of approximately one hundred sixty-four square miles. It is located in Delaware, Hardin, and Marion Counties. The School District is the 368th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifty-eight classified employees, one hundred thirteen certified teaching personnel, and ten administrative employees who provide services to 1,627 students and other community members. The School District currently operates two elementary schools, a junior high school, a high school, and an administration building.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

The component unit column on the financial statements identifies the financial data of the School District’s component unit, Elgin Digital Academy (EDA). It is reported separately to emphasize that it is legally separate from the School District. Information about this component unit is presented in Note 22 to the basic financial statements.

Elgin Digital Academy. EDA is a legally separate, not-for-profit corporation. EDA, under a contractual agreement with the Elgin Local School District, provides education opportunities through distance learning technologies. Elgin Local School District is the EDA’s sponsoring government and EDA’s five member Board of Directors is appointed by Elgin Local School District’s Board of Education. Elgin Local School District is financially accountable for EDA as it appoints the EDA’s Board and can impose its will on the EDA. EDA is reported as a discretely presented component unit on Elgin Local School District’s financial statements.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 1 - Description of the School District and Reporting Entity (continued)

The School District participates in five jointly governed organizations and two insurance pools. These organizations are the Tri-Rivers Educational Computer Association, Tri-Rivers Joint Vocational School, North Central Ohio Special Education Regional Resource Center, Northwestern Ohio Educational Research Council, Inc., North Central Regional Professional Development Center, Ohio School Plan, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Elgin 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 School 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. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

Fiduciary Funds

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of 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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and 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 Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected 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 School District, available means expected to be received within sixty days of fiscal year end.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, 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 governmental funds.

E. Budgetary Process

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

F. Cash and Investments

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

Cash and cash equivalents held for the School District by the North Central Ohio Educational Service Center are reflected as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2004 investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

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 was \$51,380, which includes \$2,091 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for textbooks, capital improvements, and budget stabilization.

J. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not have 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 capital assets, except land and construction in progress, 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>Useful Lives</u>
Land Improvements	50 years
Building and Building Improvements	50 - 100 years
Furniture, Fixtures, and Equipment	5 - 50 years
Vehicles	10 - 20 years

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 the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

K. Compensated Absences (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School 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 food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The School District reserves those portions of fund balance 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, capital improvements, budget stabilization, and encumbrances.

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 monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

O. Interfund Transactions

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

Q. 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.

Note 3 - Change in Accounting Principle

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government.

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2004, the Reading Intervention special revenue fund had a deficit fund balance, in the amount of \$51, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances 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 for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Change in Fund Balance	
GAAP Basis	(\$1,092,332)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	1,004,835
Accrued FY 2004, Not Yet Received in Cash	(1,037,393)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(1,282,786)
Accrued FY 2004, Not Yet Paid in Cash	1,320,841
Prepaid Items	(22,477)
Materials and Supplies Inventory	(20,378)
Advances In	87
Advances Out	(87)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(739,768)
Budget Basis	(\$1,869,458)

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 6 - Deposits and Investments

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

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

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

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

Protection of the School 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 bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 6 - Deposits and Investments (continued)

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; and
6. The State Treasurer's investment pool (STAR Ohio).

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of 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.

At fiscal year end, the School District had \$210 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At fiscal year end, the School District had \$22 in cash and cash equivalents held by the North Central Ohio Educational Service Center, which is included as "Cash and Cash Equivalents with Fiscal Agent". The Educational Service Center holds this flow through grant money for the School District together with that of other school districts, and therefore, the School District cannot classify this money by risk under GASB Statement No. 3.

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".

At fiscal year end, the carrying amount of the School District's deposits was \$222,649 and the bank balance was \$267,012. Of the bank balance, \$120,197 was covered by federal depository insurance and \$146,815 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School 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 School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$3,872,747.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 6 - Deposits and Investments (continued)

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$4,095,628	\$0
Cash on Hand	(210)	0
Cash and Cash Equivalents with Educational Service Center	(22)	0
Investments:		
STAR Ohio	(3,872,747)	3,872,747
GASB Statement No. 3	\$222,649	\$3,872,747

Note 7 - Receivables

Receivables at June 30, 2004, consisted of accounts (student fees and billings for user charged services), intergovernmental, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Marion County Auditor	\$13,091
Marion Technical College	356
Ohio Department of Education	10,900
Homestead and Rollback	1,106
Total General Fund	25,453
Other Governmental Funds	
Food Service	14,115
Total Intergovernmental Receivables	\$39,568

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 8 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 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 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 School District prior to June 30.

The School District receives property taxes from Delaware, Hardin, and Marion Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties 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.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was 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 was levied to finance current fiscal year operations and is reflected 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 \$1,012,643 in the General Fund. The amount available as an advance at June 30, 2003, was \$990,769 in the General Fund.

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 8 - Property Taxes (continued)

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	\$90,263,760	61.60%	\$92,381,400	62.35%
Industrial/Commercial	13,809,370	9.42	14,599,450	9.85
Public Utility	12,091,280	8.25	11,386,420	7.69
Tangible Personal	30,378,940	20.73	29,793,164	20.11
Total Assessed Value	<u>\$146,543,350</u>	<u>100.00%</u>	<u>\$148,160,434</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.85		\$37.85	

Note 9 - Capital Assets

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

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$120,433	\$0	\$0	\$120,433
Construction in Progress	195,000	122,383	(195,000)	122,383
Total Nondepreciable Capital Assets	<u>315,433</u>	<u>122,383</u>	<u>(195,000)</u>	<u>242,816</u>
Depreciable Capital Assets				
Land Improvements	48,326	0	0	48,326
Buildings and Building Improvements	1,216,667	0	0	1,216,667
Furniture, Fixtures, and Equipment	887,151	42,515	(6,694)	922,972
Vehicles	1,185,513	68,540	(48,000)	1,206,053
Total Depreciable Capital Assets	<u>3,337,657</u>	<u>111,055</u>	<u>(54,694)</u>	<u>3,394,018</u>
Less Accumulated Depreciation				
Land Improvements	(21,554)	(967)	0	(22,521)
Buildings and Building Improvements	(445,103)	(12,065)	0	(457,168)
Furniture, Fixtures, and Equipment	(521,972)	(54,811)	6,318	(570,465)
Vehicles	(745,051)	(82,978)	48,000	(780,029)
Total Accumulated Depreciation	<u>(1,733,680)</u>	<u>(150,821)</u>	<u>54,318</u>	<u>(1,830,183)</u>
Depreciable Capital Assets, Net	<u>1,603,977</u>	<u>(39,766)</u>	<u>(376)</u>	<u>1,563,835</u>
Governmental Activities Capital Assets, Net	<u>\$1,919,410</u>	<u>\$82,617</u>	<u>(\$195,376)</u>	<u>\$1,806,651</u>

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 9 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$35,974
Special	2,263
Vocational	368
Support Services:	
Pupils	597
Instructional Staff	417
Administration	3,732
Fiscal	339
Operation and Maintenance of Plant	12,333
Pupil Transportation	81,225
Non-Instructional Services	3,547
Extracurricular Activities	10,026
Total Depreciation Expense	<u>\$150,821</u>

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.

Coverage provided by Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Excess Liability	2,000,000

Coverage provided by Consolidated Insurance Company is as follows:

Automobile Liability	2,000,000
Uninsured Motorists	1,000,000
Building and Contents/Boiler and Machinery	22,408,713

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 10 - Risk Management (continued)

For fiscal year 2004, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 11 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 11 - Defined Benefit Pension Plans (continued)

A. State Teachers Retirement System (continued)

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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 salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$689,228, \$652,690, and \$459,563, respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$3,958 made by the School District and \$13,618 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$125,587, \$103,754, and \$59,179, respectively; 43 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 12 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$53,322.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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 School District, the amount to fund health care benefits, including the surcharge, was \$95,468 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$355.2 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.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 13 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred twenty days for classified employees and two hundred forty-two days for certified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of fifty-five days for classified employees and sixty-one days for certified employees.

B. Health Care Benefits

The School District offers health and dental insurance to most employees through Medical Mutual of Ohio. In addition, the School District offers life insurance through Medical Life Insurance Company. The employees share the cost of the monthly premium with the Board. The premium varies with each employee depending on marital and family status.

Note 14 - Long-Term Obligations

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

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
Compensated Absences Payable	\$731,520	\$43,928	\$55,893	\$719,555	\$58,123
Capital Leases Payable	11,641	0	11,641	0	0
Total Governmental Activities Long-Term Obligations	<u>\$743,161</u>	<u>\$43,928</u>	<u>\$67,534</u>	<u>\$719,555</u>	<u>\$58,123</u>

Compensated absences will be paid from the General Fund and the Food Service, Education Management Information Systems, and Title I special revenue funds.

The School District's overall debt margin was \$13,334,439 with an unvoted debt margin of \$148,160 at June 30, 2004.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 15 - Capital Leases - Lessee Disclosure

The School District has entered into capitalized leases for equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2004 were \$11,641.

Note 16 - Set Asides

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2004, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2004.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2003	\$83,534	\$169,188	\$43,110
Current Year Set Aside Requirement	233,811	233,811	0
Qualifying Expenditures	<u>(311,909)</u>	<u>(175,280)</u>	<u>0</u>
Balance June 30, 2004	<u>\$5,436</u>	<u>\$227,719</u>	<u>\$43,110</u>

The total reserve balance for the set asides at the end of the fiscal year was \$276,265.

Note 17 - Interfund Transfers

During fiscal year 2004, the General Fund made transfers to other governmental funds, in the amount of \$34,671, to subsidize various programs in other funds.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 18 - Donor Restricted Endowments

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$10,000, represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$31 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

Note 19 - Jointly Governed Organizations

A. Tri-Rivers Educational Computer Association

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During fiscal year 2004, the School District paid \$28,014 to TRECA for various services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

B. Tri-Rivers Joint Vocational School

The Tri-Rivers Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the ten participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Terril Martin, who serves as Treasurer, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

C. North Central Ohio Special Education Regional Resource Center

The North Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a forty-seven member board including the superintendent from the forty-two participating educational entities, one representative from a non-public school, one representative from Knox County Educational Service Center, one representative from Ashland University, and two parents of children with disabilities. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Patricia Lyons, Knox County Educational Service Center, 106 East High Street, Mt. Vernon, Ohio 43050.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 19 - Jointly Governed Organizations (continued)

D. Northwestern Ohio Educational Research Council, Inc.

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

E. North Central Regional Professional Development Center

The North Central Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Crawford, Huron, Knox, Marion, Morrow, Richland, Seneca, and Wyandot Counties. The organization was formed to create and sustain self-renewing learning communities to transform education in Ohio so that all learners can achieve their full potential. The Center is governed by a twenty-one member Board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Ilene Lemaster, Mid-Ohio Educational Service Center, 1495 West Longview Avenue, Suite 202, Mansfield, Ohio 44906.

Note 20 - Insurance Pools

A. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 20 - Insurance Pools (continued)

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

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

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

Note 21 - State School Funding Decision

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

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

Note 22 - Elgin Digital Academy

A. Basis of Presentation

Elgin Digital Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. Elgin Digital Academy uses the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

B. Deposits and Investments

At year end, the carrying amount of Elgin Digital Academy's deposits was \$20,152 and the bank balance was \$20,152. The entire bank balance was covered by federal depository insurance. Elgin Digital Academy did not have any investments at year end.

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

Note 23 - Contingencies

A. Grants

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

B. Litigation

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

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**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

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

<u>FEDERAL GRANTOR</u> <i>Pass Through Entity</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$54,109	\$0	\$54,109
Summer Food Service for Children	048413-23PU-2003	10.559	5,296	0	5,296	0
	048413-23PU-2004	10.559	788	0	788	0
Total Summer Food Service for Children			<u>6,084</u>	<u>0</u>	<u>6,084</u>	<u>0</u>
School Breakfast Program	048413-05PU-2003	10.553	1,563	0	1,563	0
	048413-05PU-2004		6,441	0	6,441	0
Total School Breakfast Program			<u>8,004</u>	<u>0</u>	<u>8,004</u>	<u>0</u>
National School Lunch Program	048413-LLP4-2003	10.555	34,277	0	34,277	0
	048413-LLP4-2004		96,306	0	96,306	0
Total National School Lunch Program			<u>130,583</u>	<u>0</u>	<u>130,583</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>144,671</u>	<u>54,109</u>	<u>144,671</u>	<u>54,109</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	048413-6BSF-2004	84.027	225,516	0	225,516	0
Title I Grants to Local Educational Agencies	048413-C1S1-2003	84.010	0	0	23,633	0
	048413-C1S1-2004		110,492	0	78,551	0
Total Title I Grants to Local Educational Agencies			<u>110,492</u>	<u>0</u>	<u>102,184</u>	<u>0</u>
Innovative Education Program Strategies	048413-C2S1-2002	84.298	0	0	555	0
	048413-C2S1-2003		0	0	1,993	0
	048413-C2S1-2004		9,347	0	2,327	0
Total Innovative Education Program Strategies			<u>9,347</u>	<u>0</u>	<u>4,875</u>	<u>0</u>
Improving Teacher Quality State Grants	048413-TRS1-2003	84.367	0	0	8,037	0
	048413-TRS1-2004		51,616	0	35,084	0
Total Improving Teacher Quality State Grants			<u>51,616</u>	<u>0</u>	<u>43,121</u>	<u>0</u>
Safe & Drug-Free Schools and Communities-State Grant	048413-DRS1-2003	84.186	0	0	2,781	0
	048413-DRS1-2004		5,904	0	5,517	0
Total Safe & Drug-Free Schools and Communities-State Grant			<u>5,904</u>	<u>0</u>	<u>8,298</u>	<u>0</u>
Technology Literacy Challenge Fund Grant	048413-TJS1-2003		0	0	917	0
	048413-TJS1-2004	84.318	2,991	0	520	0
Total Technology Literacy Challenge Fund Grant			<u>2,991</u>	<u>0</u>	<u>1,437</u>	<u>0</u>
Total U.S. Department of Education			<u>405,866</u>	<u>0</u>	<u>385,431</u>	<u>0</u>
Total Federal Awards			<u>\$550,537</u>	<u>\$54,109</u>	<u>\$530,102</u>	<u>\$54,109</u>

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

**ELGIN LOCAL SCHOOL DISTRICT
MARION COUNTY**

FOR THE YEAR ENDED JUNE 30, 2004

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and 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

Nonmonetary 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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Elgin Local School District
Marion County
4616 LaRue-Prospect Road West
Marion, Ohio 43302-8859

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the Elgin Local School District, Marion 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 February 28, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated February 28, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by 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

February 28, 2005



Auditor of State Betty Montgomery

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

Elgin Local School District
Marion County
4616 LaRue-Prospect Road West
Marion, Ohio 43302-8859

To the Board of Education:

Compliance

We have audited the compliance of the Elgin Local School District, Marion 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 are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 District complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the District 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 have a direct and material effect on a major federal program in order 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.

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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 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 that would be material in relation to the major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by 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

February 28, 2005

**ELGIN LOCAL SCHOOL DISTRICT
MARION 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):	Special Education Grants to States – CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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ELGIN LOCAL SCHOOL DISTRICT

MARION 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
APRIL 7, 2005**