



**Auditor of State  
Betty Montgomery**



**EAST GUERNSEY LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

East Guernsey Local School District  
Guernsey County  
237 Beymer Road, P.O. Box 128  
Old Washington, Ohio 43768

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Guernsey Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Guernsey Local School District, Guernsey County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof 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 6, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures 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 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 6, 2006

**East Guernsey Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited

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The discussion and analysis of the East Guernsey Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. 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 notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2005 are as follows:

- In total, net assets decreased \$48,255.
- General revenues accounted for \$10,297,934 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,545,837 or 20 percent of total revenues of \$12,843,771.
- Total assets of governmental activities decreased \$1,143,977 primarily due to the decrease in cash balance, slightly offset by an increase in capital assets associated with the completion of the classroom facilities construction project.
- The School District had \$12,892,026 in expenses related to governmental activities; only \$2,545,837 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$10,297,934 were not adequate to provide for these programs.
- The School District has three major funds; the General, Debt Service, and Classroom Facilities Funds. The General Fund had \$8,944,127 in revenues and \$9,628,241 in expenditures. The General Fund's balance decreased \$581,657. The Debt Service Fund had \$693,672 in revenues and \$550,511 in expenditures. The Debt Service Fund's balance increased \$143,161. The Classroom Facilities Fund had \$1,575,322 in revenues and \$7,317,219 in expenditures. The Classroom Facilities Fund's balance decreased \$5,741,897.

### **Using this Annual Financial Report**

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

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

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***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Debt Service Fund and the Classroom Facilities Capital Projects Fund.

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

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the



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Health Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity wide financial statements.

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

**Table 1**  
**Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current and Other Assets	\$8,308,472	\$16,362,682
Capital Assets	26,440,638	19,530,405
<b>Total Assets</b>	<b>34,749,110</b>	<b>35,893,087</b>
<b>Liabilities</b>		
Long-Term Liabilities	5,943,195	6,063,569
Other Liabilities	3,349,911	4,325,259
<b>Total Liabilities</b>	<b>9,293,106</b>	<b>10,388,828</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	22,899,639	18,137,102
Restricted	1,380,002	5,903,141
Unrestricted	1,176,363	1,464,016
<b>Total Net Assets</b>	<b>\$25,456,004</b>	<b>\$25,504,259</b>

Total assets decreased \$1,143,977. The decrease was primarily due to the decrease in cash and cash equivalents as the construction project was completed, even as capital assets increased \$6,910,233.

Total liabilities decreased \$1,095,722. The primary cause for this change was a result of the decrease in contracts payable associated with the completion of the classroom facilities and activity complex capital projects, as well as bond payments made in fiscal year 2005.

Table 2 shows the changes in net assets for the fiscal year 2005 compared to fiscal year 2004.

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**Table 2**  
**Changes in Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$1,018,369	\$943,433
Operating Grants and Contributions	1,495,323	1,563,247
Capital Grants and Contributions	32,145	138,835
Total Program Revenues	<u>2,545,837</u>	<u>2,645,515</u>
General Revenues		
Property Taxes	2,788,331	1,813,852
Grants and Entitlements - Classroom Facilities	1,502,320	10,704,125
Grants and Entitlements not Restricted to Specific Programs	5,799,121	5,709,366
Investments	125,508	99,942
Other	82,654	113,088
Total General Revenues	<u>10,297,934</u>	<u>18,440,373</u>
<b>Total Revenues</b>	<u><b>12,843,771</b></u>	<u><b>21,085,888</b></u>
<b>Program Expenses</b>		
Instruction		
Regular	5,692,214	4,686,091
Special	1,202,062	922,060
Vocational	355,901	301,989
Adult/Continuing	5,744	4,735
Support Services		
Pupil	749,004	637,042
Instructional Staff	497,882	404,106
Board of Education, Administration, and Fiscal	1,553,409	1,474,739
Operation and Maintenance of Plant	883,812	773,329
Pupil Transportation	887,273	834,878
Central	34,733	31,602
Operation of Non-Instructional Services	0	1,910
Food Service Operations	440,780	487,268
Extracurricular Activities	350,605	266,038
Interest and Fiscal Charges	238,607	149,025
<b>Total Expenses</b>	<u><b>12,892,026</b></u>	<u><b>10,974,812</b></u>
<b>Increase (Decrease) in Net Assets</b>	<u><b>(\$48,255)</b></u>	<u><b>\$10,111,076</b></u>

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In 2005, 22 percent of the School District's revenues were from property taxes and 45 percent were from unrestricted grants and entitlements. Property taxes reflect a significant increase from the prior year, primarily due to a larger amount of property taxes that were available for advance in fiscal year 2005 than compared to fiscal year 2004. Unrestricted grants and entitlements revenue decreased significantly as the classroom facilities project completed. Classroom facilities project revenues were 65% of grant monies in fiscal year 2004 and just 21% in fiscal year 2005.

Program revenues accounted for 20 percent of the District's revenues in fiscal year 2005. These revenues consist of tuition and fees, charges for providing lunches to students, transportation and vocational services provided to other school districts, grants for specified purposes, and contributions and donations.

Instructional programs comprise approximately 56 percent of total governmental program expenses. Of the instructional expenses, approximately 78 percent is for regular instruction, 17 percent for special instruction, 5 percent for vocational and adult/continuing instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

**Table 3**  
**Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction				
Regular	\$5,692,214	\$4,686,091	\$4,876,550	\$3,869,580
Special	1,202,062	922,060	430,519	197,416
Vocational	355,901	301,989	312,351	260,010
Adult/Continuing	5,744	4,735	5,744	4,735
Support Services				
Pupil	749,004	637,042	668,245	477,459
Instructional Staff	497,882	404,106	358,671	312,392
Board of Education, Administration and Fiscal	1,553,409	1,474,739	1,480,300	1,395,509
Operation and Maintenance of Plant	883,812	773,329	879,282	765,809
Pupil Transportation	887,273	834,878	856,156	801,891
Central	34,733	31,602	11,030	7,189
Operation of Non-Instructional Services	0	1,910	0	1,910
Food Service Operations	440,780	487,268	59,565	25,164
Extracurricular Activities	350,605	266,038	169,169	61,208
Interest and Fiscal Charges	238,607	149,025	238,607	149,025
<b>Total Expenses</b>	<u>\$12,892,026</u>	<u>\$10,974,812</u>	<u>\$10,346,189</u>	<u>\$8,329,297</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 78 percent of instruction costs and 92 percent of support services costs are supported through taxes and other

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general revenues. At the same time, general revenues are required to fund 14% of food service operations in fiscal year 2005, and increase from 5% in fiscal year 2004.

**The School District Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,746,710 and expenditures of \$20,340,512. As apparent, the School District's expenditures exceeded revenues during the fiscal year. Expenditures in excess of revenues in the classroom facilities project were \$5,741,897 as the construction was completed.

**General Fund Budgeting Highlights**

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

During the course of fiscal 2005 the School District amended its General Fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and final budget.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2005 the School District had \$26,440,638 invested in land, land improvements, buildings and improvements, furniture, equipment and vehicles. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

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

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
Land	\$177,901	\$177,901
Construction in Progress	0	14,043,927
Land Improvements	2,381,647	201,851
Buildings and Improvements	23,000,997	4,422,604
Furniture and Equipment	467,637	193,523
Vehicles	412,456	490,599
	\$26,440,638	\$19,530,405

See note 9 for more detailed information of the School District's capital assets. The total value of the School District's building and improvements increased \$18,578,393 in fiscal year 2005 at the completion of the classroom facilities and activity complex construction projects.

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**Debt**

At June 30, 2005, the School District had \$5,398,138 in bonds and capital leases outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
1992 School Improvement Bonds		
<i>BTHS Construction</i>		
Capital Appreciation Bonds	\$0	\$47,784
Accretion of Interest	0	95,089
2002 School Facilities & Refunding Bonds	3,565,000	3,660,000
<i>BTES/BTMS Construction</i>		
2004 School Facilities Bonds		
<i>Activity Complex</i>		
Serial/Term Bonds	1,655,000	1,730,405
Capital Leases	178,138	44,778
Totals	<u>\$5,398,138</u>	<u>\$5,578,056</u>

See Note 15 for more information regarding debt. Outstanding bond debt was reduced by 6 percent in fiscal year 2005. As a result of participation in the State's classroom facilities program, the value of capital assets increased significantly more than the debt related to that construction.

**Economic Factors**

The East Guernsey Local School District has achieved Effective School status as awarded by the Ohio Department of Education for the past four school years. The District is committed to maintaining that status as it faces the challenge of maintaining fiscal solvency. The Board of Education acknowledges that the East Guernsey Local School District is deficit spending - each year of the District's Board approved five year forecast reflects more expenditures than revenues, which is eroding prior carryover balances. Per the Board's most recent approved forecast, deficit cash balances are predicted beginning in FY07. Current Board authorized expenditure reduction plans to address this situation have begun and include delaying the purchase of school buses and textbooks and reductions in staff and programs.

The School District relies heavily on state funding as indicated by the information presented in these statements. Any change to state funding has significant impact on the financial status of the district. Changes in parity funding and other state funding as enacted by the state legislature in June 2005 adversely impacted anticipated revenue.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Gaye Lodge, Treasurer at East Guernsey Local School District, 237 Beymer Road, Old Washington, Ohio 43768.

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**East Guernsey Local School District**  
*Statement of Net Assets*  
*June 30, 2005*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,180,098
Cash and Cash Equivalents with Fiscal Agent	559,439
Accounts Receivable	2,030
Intergovernmental Receivable	194,015
Prepaid Items	137,923
Materials and Supplies Inventory	50,021
Cash and Cash Equivalents with Escrow Agent	265,073
Property Taxes Receivable	2,860,359
Deferred Charges	59,514
Non-Depreciable Capital Assets	177,901
Depreciable Capital Assets, Net	26,262,737
<i>Total Assets</i>	34,749,110
<b>Liabilities</b>	
Accounts Payable	100,159
Accrued Wages and Benefits Payable	816,781
Intergovernmental Payable	273,576
Contracts Payable	390,631
Accrued Interest Payable	13,156
Vacation Benefits Payable	27,412
Matured Severance Payable	19,033
Claims Payable	108,642
Retainage Payable	265,073
Deferred Revenue	1,335,448
Long-Term Liabilities:	
Due Within One Year	377,059
Due In More Than One Year	5,566,136
<i>Total Liabilities</i>	9,293,106
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	22,899,639
Restricted for:	
Capital Projects	169,693
Debt Service	957,731
Other Purposes	252,578
Unrestricted	1,176,363
<i>Total Net Assets</i>	\$25,456,004

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$5,692,214	\$653,874	\$161,790	\$0	(\$4,876,550)
Special	1,202,062	9,542	762,001	0	(430,519)
Vocational	355,901	0	43,550	0	(312,351)
Adult/Continuing	5,744	0	0	0	(5,744)
Support Services:					
Pupil	749,004	0	80,759	0	(668,245)
Instructional Staff	497,882	0	139,211	0	(358,671)
Board of Education	31,360	0	0	0	(31,360)
Administration	1,160,219	0	73,109	0	(1,087,110)
Fiscal	361,830	0	0	0	(361,830)
Operation and Maintenance of Plant	883,812	4,530	0	0	(879,282)
Pupil Transportation	887,273	0	3,416	27,701	(856,156)
Central	34,733	0	23,703	0	(11,030)
Food Service Operations	440,780	173,431	207,784	0	(59,565)
Extracurricular Activities	350,605	176,992	0	4,444	(169,169)
Interest and Fiscal Charges	238,607	0	0	0	(238,607)
<b>Total Governmental Activities</b>	<b>\$12,892,026</b>	<b>\$1,018,369</b>	<b>\$1,495,323</b>	<b>\$32,145</b>	<b>(10,346,189)</b>
<b>General Revenues</b>					
Property Taxes Levied for General Purposes					2,109,424
Property Taxes Levied for Building Maintenance					43,806
Property Taxes Levied for Debt Service					635,101
Grants and Entitlements - Classroom Facilities					1,502,320
Grants and Entitlements not Restricted to Specific Programs					5,799,121
Investment Earnings					125,508
Miscellaneous					82,654
<b>Total General Revenues</b>					<b>10,297,934</b>
Change in Net Assets					(48,255)
<i>Net Assets Beginning of Year</i>					<u>25,504,259</u>
<i>Net Assets End of Year</i>					<u><u>\$25,456,004</u></u>

See accompanying notes to the basic financial statements



**East Guernsey Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2005*

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$889,679	\$698,856	\$2,050,495	\$541,068	\$4,180,098
Restricted Assets:					
Cash and Cash Equivalents with Fiscal Agents	0	0	243,652	21,421	265,073
Receivables:					
Property Taxes	2,251,743	562,491	0	46,125	2,860,359
Accounts	1,688	0	0	342	2,030
Intergovernmental	16,216	0	0	177,799	194,015
Interfund	46,929	0	0	0	46,929
Prepaid Items	124,600	0	0	13,323	137,923
Materials and Supplies Inventory	42,620	0	0	7,401	50,021
<i>Total Assets</i>	<u>\$3,373,475</u>	<u>\$1,261,347</u>	<u>\$2,294,147</u>	<u>\$807,479</u>	<u>\$7,736,448</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$81,252	\$0	\$0	\$18,907	\$100,159
Accrued Wages and Benefits	711,568	0	0	105,213	816,781
Contracts Payable	0	0	273,405	117,226	390,631
Matured Severance Payable	19,033	0	0	0	19,033
Retainage Payable	0	0	243,652	21,421	265,073
Interfund Payable	0	0	0	46,929	46,929
Intergovernmental Payable	231,296	0	0	42,280	273,576
Deferred Revenue	1,651,281	380,543	0	88,203	2,120,027
<i>Total Liabilities</i>	<u>2,694,430</u>	<u>380,543</u>	<u>517,057</u>	<u>440,179</u>	<u>4,032,209</u>
<b>Fund Balances (Deficit)</b>					
Reserved for Encumbrances	195,050	0	209,222	60,504	464,776
Reserved for Property Taxes	600,462	181,948	0	12,506	794,916
Unreserved, Undesignated, Reported in:					
General Fund	(116,467)	0	0	0	(116,467)
Special Revenue Funds	0	0	0	132,761	132,761
Debt Service Fund	0	698,856	0	0	698,856
Capital Projects Funds	0	0	1,567,868	161,529	1,729,397
<i>Total Fund Balances</i>	<u>679,045</u>	<u>880,804</u>	<u>1,777,090</u>	<u>367,300</u>	<u>3,704,239</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,373,475</u>	<u>\$1,261,347</u>	<u>\$2,294,147</u>	<u>\$807,479</u>	<u>\$7,736,448</u>

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2005*

**Total Governmental Fund Balances** \$3,704,239

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

Capital assets used in governmental activities are not financial  
resources and therefore are deferred in the funds. 26,440,638

Other long-term assets, including property taxes, are not available to  
pay for current period expenditures and therefore are deferred in the funds. 784,579

Unamortized issuance costs represent deferred charges which  
do not provide current financial resources and, therefore, are  
not reported in the funds. 59,514

An internal service fund is used by management to charge the costs of  
insurance to individual funds. The assets and liabilities of the internal  
service fund are included in governmental activities in the statement of net assets. 450,797

Long-term liabilities, including bonds payable and accrued  
interest payable, are not due and payable in the current period  
and therefore are not reported in the funds:

General Obligation Bonds	5,283,227
Compensated Absences	481,830
Vacation Benefits Payable	27,412
Capital Leases	178,138
Accrued Interest Payable	13,156
	13,156

Total (5,983,763)

*Net Assets of Governmental Activities* \$25,456,004

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
**Governmental Funds**  
*For the Fiscal Year Ended June 30, 2005*

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$2,080,250	\$626,073	\$0	\$43,192	\$2,749,515
Intergovernmental	6,072,593	67,599	1,502,320	1,120,450	8,762,962
Interest	41,831	0	71,917	8,099	121,847
Tuition and Fees	617,196	0	0	0	617,196
Extracurricular Activities	0	0	0	180,136	180,136
Rent	4,530	0	0	0	4,530
Contributions and Donations	0	0	0	8,219	8,219
Charges for Services	46,220	0	0	173,431	219,651
Miscellaneous	81,507	0	1,085	62	82,654
<i>Total Revenues</i>	<u>8,944,127</u>	<u>693,672</u>	<u>1,575,322</u>	<u>1,533,589</u>	<u>12,746,710</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	4,473,600	0	0	183,769	4,657,369
Special	533,950	0	0	469,402	1,003,352
Vocational	327,104	0	0	0	327,104
Adult/Continuing	5,744	0	0	0	5,744
Support Services:					
Pupil	507,801	0	0	119,640	627,441
Instructional Staff	313,008	0	0	143,385	456,393
Board of Education	36,303	0	0	0	36,303
Administration	1,030,186	0	0	71,824	1,102,010
Fiscal	331,453	13,882	0	961	346,296
Operation and Maintenance of Plant	847,385	0	0	41,194	888,579
Pupil Transportation	819,948	0	0	3,699	823,647
Central	2,734	0	0	33,132	35,866
Food Service Operations	0	0	0	430,739	430,739
Extracurricular Activities	156,616	0	0	157,715	314,331
Capital Outlay	168,616	0	7,317,219	1,189,081	8,674,916
Debt Service:					
Principal Retirement	60,555	218,189	0	0	278,744
Interest and Fiscal Charges	13,238	223,351	0	0	236,589
Interest on Capital Appreciation Bonds	0	95,089	0	0	95,089
<i>Total Expenditures</i>	<u>9,628,241</u>	<u>550,511</u>	<u>7,317,219</u>	<u>2,844,541</u>	<u>20,340,512</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(684,114)	143,161	(5,741,897)	(1,310,952)	(7,593,802)
<b>Other Financing Sources (Uses)</b>					
Inception of Capital Leases	193,915	0	0	0	193,915
Transfers In	0	0	0	91,458	91,458
Transfers Out	(91,458)	0	0	0	(91,458)
Total Other Financing Sources (Uses)	<u>102,457</u>	<u>0</u>	<u>0</u>	<u>91,458</u>	<u>193,915</u>
<i>Net Change in Fund Balances</i>	(581,657)	143,161	(5,741,897)	(1,219,494)	(7,399,887)
<i>Fund Balances Beginning of Year</i>	<u>1,260,702</u>	<u>737,643</u>	<u>7,518,987</u>	<u>1,586,794</u>	<u>11,104,126</u>
<i>Fund Balances End of Year</i>	<u>\$679,045</u>	<u>\$880,804</u>	<u>\$1,777,090</u>	<u>\$367,300</u>	<u>\$3,704,239</u>

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Reconciliation of the Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

**Net Change in Fund Balances - Total Governmental Funds** (\$7,399,887)

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

Governmental funds report capital outlays as expenditures. However, in 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 capital outlay exceeded depreciation in the current period.

Capital Outlay	8,519,764	
Depreciation	<u>(576,184)</u>	
Total		7,943,580

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the net loss on the disposal of fixed assets.

(1,033,347)

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

Grants	54,584	
Property Taxes	<u>38,816</u>	
Total		93,400

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

General Obligation Bonds	218,189	
Accretion on Capital Appreciation Bonds	95,089	
Capital Leases	<u>60,555</u>	
Total		373,833

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. The amortization of premiums are reported on the statement of activities.

Accrued Interest	(2,273)	
Premium	<u>4,336</u>	
Total		2,063

Issuance costs are reported as an expenditure when paid in governmental funds, but are allocated as an expense over the life of the outstanding debt on the statement of activities.

(4,081)

Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities.

(193,915)

Some expenses reported in the statement of activities, such as compensated absences, vacation benefits payable and intergovernmental payables, which represent 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	96,300	
Vacation Benefits Payable	12,910	
Compensated Absences Payable	<u>(63,880)</u>	
Total		45,330

The internal service fund used by management to charge the costs of insurance to individual funds is included in the statement of activities and not on the governmental fund statements. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among governmental activities.

124,769

*Changes in Net Assets of Governmental Activities*

(\$48,255)

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Property Taxes	\$1,591,000	\$1,720,513	\$1,731,088	\$10,575
Intergovernmental	6,032,516	6,066,411	6,077,684	11,273
Interest	31,200	34,200	41,831	7,631
Tuition and Fees	536,800	602,458	617,241	14,783
Rent	3,100	4,400	4,530	130
Charges for Services	0	46,094	46,220	126
Miscellaneous	25,700	129,394	174,011	44,617
<i>Total Revenues</i>	<u>8,220,316</u>	<u>8,603,470</u>	<u>8,692,605</u>	<u>89,135</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,219,761	4,149,523	4,122,075	27,448
Special	589,675	578,854	569,630	9,224
Vocational	330,436	337,364	335,010	2,354
Adult/Continuing	5,000	5,745	5,744	1
Other	397,000	483,948	483,948	0
Support Services:				
Pupils	511,161	512,942	513,414	(472)
Instructional Staff	322,651	334,851	325,201	9,650
Board of Education	37,355	29,300	29,319	(19)
Administration	1,048,891	1,043,172	1,039,498	3,674
Fiscal	329,857	329,533	328,446	1,087
Operation and Maintenance of Plant	883,498	996,632	979,936	16,696
Pupil Transportation	836,053	856,601	849,205	7,396
Central	36,508	1,916	1,585	331
Extracurricular Activities	161,173	159,499	156,199	3,300
Capital Outlay	0	1,434	1,434	0
<i>Total Expenditures</i>	<u>9,709,019</u>	<u>9,821,314</u>	<u>9,740,644</u>	<u>80,670</u>
Excess of Revenues Under Expenditures	<u>(1,488,703)</u>	<u>(1,217,844)</u>	<u>(1,048,039)</u>	<u>169,805</u>
<b>Other Financing Uses</b>				
Transfers Out	0	(81,458)	(81,458)	0
Advances Out	0	0	(46,929)	(46,929)
Total Other Financing Uses	<u>0</u>	<u>(81,458)</u>	<u>(128,387)</u>	<u>(46,929)</u>
<i>Net Change in Fund Balance</i>	<u>(1,488,703)</u>	<u>(1,299,302)</u>	<u>(1,176,426)</u>	<u>122,876</u>
<i>Fund Balance Beginning of Year</i>	1,452,247	1,452,247	1,452,247	0
Prior Year Encumbrances Appropriated	<u>329,174</u>	<u>329,174</u>	<u>329,174</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$292,718</u>	<u>\$482,119</u>	<u>\$604,995</u>	<u>\$122,876</u>

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2005*

	Governmental Activity
	Internal Service Fund
<b>Current Assets</b>	
Cash and Cash Equivalents with Fiscal Agent	\$559,439
<b>Current Liabilities</b>	
Claims Payable	108,642
<b>Net Assets</b>	
Unrestricted	450,797
<i>Total Net Assets</i>	\$450,797

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2005*

	<u>Governmental</u> <u>Activity</u> <u>Internal Service</u> <u>Fund</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$1,472,989</u>
<b>Operating Expenses</b>	
Fringe Benefits	7,766
Purchased Services	307,906
Claims	<u>1,036,209</u>
<i>Total Operating Expenses</i>	<u>1,351,881</u>
<i>Operating Income</i>	121,108
<b>Non-Operating Revenues</b>	
Interest	<u>3,661</u>
<i>Change in Net Assets</i>	124,769
<i>Net Assets Beginning of Year</i>	<u>326,028</u>
<i>Net Assets End of Year</i>	<u><u>\$450,797</u></u>

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2005

	Governmental Activity
	Internal Service Fund
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$1,472,989
Cash Payments for Goods and Services	(315,672)
Cash Payments for Claims	(1,022,949)
	134,368
<i>Net Cash Provided By Operating Activities</i>	134,368
<b>Cash Flows from Investing Activities</b>	
Interest	3,661
	3,661
<i>Net Cash Provided by Investing Activities</i>	3,661
<i>Net Increase in Cash and Cash Equivalents</i>	138,029
<i>Cash and Cash Equivalents Beginning of Year</i>	421,410
<i>Cash and Cash Equivalents End of Year</i>	\$559,439
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating Income	\$121,108
Increase in Claims Payable	13,260
	13,260
<i>Net Cash Provided By Operating Activities</i>	\$134,368
See accompanying notes to the basic financial statements	



**East Guernsey Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2005*

	<b>Private Purpose Trust Fund</b>	<b>Agency</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$8,551	\$54,598
Investments	44,537	0
Accrued Interest Receivable	226	0
	<u>53,314</u>	<u>0</u>
<i>Total Assets</i>	<u>53,314</u>	<u>\$54,598</u>
<b>Liabilities</b>		
Due to Students	0	\$54,598
	<u>0</u>	<u>\$54,598</u>
<i>Total Liabilities</i>	<u>0</u>	<u>\$54,598</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	53,314	
	<u>53,314</u>	
<i>Total Net Assets</i>	<u>\$53,314</u>	

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Private Purpose Trust Fund
<b>Additions</b>	
Contributions and Donations	\$614
Interest	2,589
Total Additions	3,203
<b>Deductions</b>	
Scholarships Awarded	2,408
<i>Change in Net Assets</i>	795
<i>Net Assets Beginning of Year</i>	52,519
<i>Net Assets End of Year</i>	\$53,314

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The East Guernsey Local School District was formed in 1976 with the consolidation of Zane Trace Local Schools and Madison Consolidated Local Schools. The School District is located in southeastern Ohio and encompasses the eastern 45% of Guernsey County.

The East Guernsey Local School District operates under a locally elected five member board form of government and provides educational services as authorized and mandated by state and federal agencies. The School Board controls the School District's two instructional/support facilities, which are staffed by 60 classified employees, 85 certified teaching employees, and 8 administrators, who provide services to approximately 1,252 students and other community members.

*Reporting Entity:*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the East Guernsey 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.

No separate governmental units meet the criteria for inclusion as a component unit. The following activity is included within the reporting entity:

The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency, the East Central Ohio Special Education Regional Resource Center, the Mid East Ohio Career and Technology Center, and the Metropolitan Educational Council which are defined as jointly governed organizations. The School District also participates in three public entity pools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan, insurance purchasing pools, and the Ohio Mid-Eastern Regional Educational Service Agency Self Insurance Plan, a claims servicing pool. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the East Guernsey 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 and proprietary fund provided they do not conflict with

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**A. Basis of Presentation**

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. 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.

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**B. Fund Accounting**

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

***Governmental Funds*** Governmental funds are those through which most governmental functions typically 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 following are the School District's major governmental funds:

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

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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***Debt Service Fund*** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest, and related costs.

***Classroom Facilities Fund*** - The Classroom Facilities Capital Project Fund is used to account for the local and state share of a school facilities project through the Ohio School Facilities Commission. The local share of the project is funded through a bond levy.

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

***Proprietary Fund Type*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, prescription drug, vision and dental claims.

***Fiduciary Fund Type*** 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. The School District's fiduciary funds include private-purpose trust and agency funds. Private-purpose 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 therefore not available to support the School District's own programs. The School District has a private purpose trust which accounts for various college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities and assets held by the School District as an agent for outside activities.

### **C. Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the 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 (i.e., revenues) and decreases (i.e., expenses) in the total net assets.

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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information about how the School District finances and meets the cash flow needs of its proprietary activity.

**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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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 60 days of fiscal year-end.

Non-exchange 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 taxes are levied (See Note 6). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**E. Cash and Cash Equivalents**

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 the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". The School District participates in the OME-RESA insurance consortium for self-insurance. These monies are held separate from the School District's central bank account and are reflected in the financial statements as "Cash and Cash Equivalents with Fiscal Agents".

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit, and State Treasury Asset Reserve of Ohio (STAROhio). Investments are reported at fair value, except for nonnegotiable certificates of deposit which are reported at cost. Fair value is based on quoted market price or current share price.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2005.

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 2005 amounted to \$41,831, which includes \$23,443, assigned from other School District funds.

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

**F. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets in governmental funds represent cash and cash equivalents restricted for retainage payments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**I. Capital Assets**

The only capital assets of the School District are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three thousand dollars. 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.

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

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Land Improvements	20-50 Years
Buildings and Improvements	20-50 Years
Furniture, Fixtures and Equipment	5-20 Years
Vehicles	6-15 Years

**J. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net assets.

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. A liability is recorded for vacation eligible employees after one year service with the School District.

Sick leave benefits are accrued as a liability using the termination method. The School District records a liability for accumulated unused sick leave for employees to the extent it is probable that the benefits will result in termination payments based upon an estimate of past experience of making termination payments for sick leave.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured severance payable" in the funds from which these payments will be made.



**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**L. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and loans are recognized as a liability on the governmental fund financial statements when due or when resources are available.

**M. Bond Discounts, Premiums, and Issuance Costs**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs, bond premiums and bond discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond discounts are presented as an addition to the face amount of the bonds.

On the governmental fund financial statements, governmental fund types recognize issuance costs, bond premiums, and bond discounts in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**N. Interfund Activity**

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.

**O. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**P. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for maintenance of classroom facilities, various local district managed activities, and state and federal grants restricted to expenditures for specified purposes. The government-wide statement of net assets reports \$1,380,002 of restricted net assets. Of the restricted net assets, \$1,076,973 has resulted from enabling legislation.

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

**Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this determination are reported as non-operating.

**R. 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 the Board of Education and that are either unusual in nature or infrequent in occurrence.

**S. 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.

**T. Budgetary Data**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the function, object level for the general fund, and at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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In accordance with the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method which has been approved by school districts in the County. Under this alternative method, the County Budget Commission has waived the requirement for the School District to adopt a tax budget; the Commission does require that the School District provide fiscal reports and projections on an annual basis.

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

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

### **NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

**Change in Accounting Principles** For the fiscal year ended June 30, 2005, the School District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers", and early-implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 6 "Deposits and Investments" for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The effect of the implementation of this technical bulletin had no material effect on fund balances and net assets.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

### **NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non GAAP Basis) and Actual - 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$581,657)
Revenue Accruals	(445,437)
Expenditure Accruals	172,278
Advances Out	(46,929)
Transfers Out	10,000
Encumbrances	<u>(284,681)</u>
Budget Basis	<u><u>(\$1,176,426)</u></u>

**NOTE 5 - CASH AND CASH EQUIVALENTS**

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

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

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

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

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

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1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
  2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
  3. Written repurchase agreements in the securities listed above;
  4. Bonds and other obligations of the State of Ohio or Ohio local governments;
  5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
  6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
  7. The State Treasurer's investment pool (STAROhio).
  8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

At June 30, 2005, the School District's Internal Service Fund had a balance of \$559,439 with OME-RESA, a claims servicing pool (See Note 18). The money is held by the claims servicing pool in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Self-Insurance Plan, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

#### Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$725,165 of the School District's bank balance of \$869,702 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the School District had an investment in STAROhio which is part of the internal investment pool. The carrying value of STAROhio was \$3,859,180, and the investment has a maturity of thirty days.

**Interest Rate Risk.** The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk.** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the

**East Guernsey Local School District**  
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*For the Fiscal Year Ended June 30, 2005*

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 Guernsey County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$600,462 in the General Fund, \$181,948 in the Debt Service Fund, and \$12,506 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2004, was \$251,300 in the General Fund, \$77,165 in the Debt Service Fund, and \$5,261 in the Classroom Facilities Special Revenue Fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$80,305,280	89.38%	\$80,867,190	88.16%
Public Utility Personal	7,310,130	8.14%	8,673,310	9.46%
Tangible Personal	2,226,930	2.48%	2,183,000	2.38%
	<u>\$89,842,340</u>	<u>100.00%</u>	<u>\$91,723,500</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$33.30		\$33.30

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005, consisted of property taxes, intergovernmental grants and accounts. 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:

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

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**Governmental Activities**

Tuition and Fees from Other Districts	\$16,216
Ohio Reads Grant	5,208
Intervention Grant	709
Title IV	1,500
Title II-A	10,985
Title II-D	2,221
IDEA Part B	15,345
Title I	57,316
FEMA	54,584
Food Service Subsidy	29,931
	\$194,015
Total	\$194,015

**NOTE 8 – INTERNAL BALANCES**

**A. Interfund Balances**

Interfund balances at June 30, 2005 consisted of the following individual interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u> <u>General Fund</u>
Other Nonmajor Governmental	\$46,929
	\$46,929

This total included a loan to the Food Service Special Revenue Fund to support the cafeteria program due to the fund being unable to adequately support this activity, and loans to state/federal grant funds until the grant funds were received.

**B. Transfers**

Interfund transfers for the year ended June 30, 2005 consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u> <u>Other</u> <u>Governmental</u> <u>Funds</u>
General Fund	\$91,458
	\$91,458

The above mentioned Transfers From/To were used to move receipts from the General Fund which collected the receipts to the State Grants Fund for the general fund share of the electronic management information systems program, and to support the Food Service Special Revenue Fund for the cafeteria program.



**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
<b>Nondepreciable Capital Assets:</b>				
Land	\$177,901	\$0	\$0	\$177,901
Construction in Progress	14,043,927	0	14,043,927	0
<b>Total Nondepreciable Capital Assets</b>	<b>14,221,828</b>	<b>0</b>	<b>14,043,927</b>	<b>177,901</b>
<b>Depreciable Capital Assets:</b>				
Land Improvements	363,526	2,200,035	24,275	2,539,286
Buildings and Improvements	7,348,795	19,946,338	1,837,259	25,457,874
Furniture and Equipment	471,045	417,318	141,159	747,204
Vehicles	1,321,489	0	3,000	1,318,489
<b>Total Depreciable Capital Assets</b>	<b>9,504,855</b>	<b>22,563,691</b>	<b>2,005,693</b>	<b>30,062,853</b>
<b>Accumulated Depreciation:</b>				
Land Improvements	(161,675)	(16,597)	(20,633)	(157,639)
Buildings and Improvements	(2,926,191)	(427,967)	(897,281)	(2,456,877)
Furniture and Equipment	(277,522)	(53,977)	(51,932)	(279,567)
Vehicles	(830,890)	(77,643)	(2,500)	(906,033)
<b>Total Accumulated Depreciation</b>	<b>(4,196,278)</b>	<b>(576,184) *</b>	<b>(972,346)</b>	<b>(3,800,116)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>5,308,577</b>	<b>21,987,507</b>	<b>1,033,347</b>	<b>26,262,737</b>
<b>Governmental Capital Assets, Net</b>	<b>\$19,530,405</b>	<b>\$21,987,507</b>	<b>\$15,077,274</b>	<b>\$26,440,638</b>

\*Depreciation expense was charged to governmental activities as follows:

<b>Instruction:</b>	
Regular	\$300,992
Special	58,175
Vocational	20,621
<b>Support Services:</b>	
Pupil	36,833
Instructional Staff	15,870
Administration	23,586
Fiscal	2,014
Operation of Maintenance and Plant	11,535
Pupil Transportation	79,841
Extracurricular	15,839
Food Service Operations	10,878
<b>Total Depreciation Expense</b>	<b>\$576,184</b>

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**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 omission; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with the Ohio School Insurance Program/Marsh USA Inc for property insurance and boiler and machinery coverage. The policies include a \$1,000 deductible for other property losses and a \$500 deductible for crimes. Professional and general liability is protected by the Ohio School Plan Insurance program with a \$1,000,000 single occurrence limit and \$3,000,000 general aggregate limit, and no deductible. Vehicles are covered by the Ohio School Plan Educational Automobile Insurance plan and have \$1,000 deductible for comprehensive and a \$1,000 deductible for collision for school buses. Automobile liability has a \$2,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 18). The plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

Health and dental coverages are provided on a self-insured basis through Ohio Mid Eastern Regional Education Service Agency Health Benefits Plan. The third party administrator, Self Funded Plans, Inc reviews and pays the claims. The School District pays monthly premiums of \$1,003.43 for family coverage (full rate is \$1,101.32) and \$416.60 for individual coverage (full rate is \$457.25). Premiums for dental coverage are \$52.21 monthly for family and \$20.80 monthly for single coverage, paid in full by the Board of Education. Vision insurance is available to employees enrolling in a mandatory steerage preferred provider organization plan. Those premiums are \$18.59 per month for family coverage, \$8.31 per month for single coverage and are paid in full by the Board of Education. Premiums are charged to the same funds that pay the employees' salaries.

The claims liability of \$108,642 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

**East Guernsey Local School District**  
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Changes in claims activity for the past two fiscal years are as follows:

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at End <u>of Year</u>
2004	\$96,353	\$974,939	\$975,910	\$95,382
2005	95,382	1,036,209	1,022,949	108,642

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employee Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$197,958, \$183,859, and \$176,270 respectively; 84.71 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for the fiscal years 2004 and 2003.

**B. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are

**East Guernsey Local School District**  
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used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$668,726, \$646,692, and \$593,907 respectively; 83.36 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for the fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$998 made by the School District and \$5,576 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all compensated persons not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the SERS/STRSOHio. As of June 30, 2005, all members of the Board of Education elected social security. The Board's liability for those members electing Social Security is 6.2 percent of wages paid.

**NOTE 12 – POST EMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the

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STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$47,766 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. 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 fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$69,836 to fund health care benefits, including the surcharge.

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 for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Central office employees, 260 day supervisors, 260 day administrators, and 260 day custodians earn ten to twenty-five days of vacation per year, depending upon length of service/and or Board action. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 260 days do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 246 days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit, if SERS/STRS retirement prerequisites are met.

**B. Other Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to all regular employees through Medical Life Insurance Company in the amount of \$20,000 per employee, with administrative personnel being provided \$50,000 of coverage.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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**NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

In prior years, the School District has entered into capitalized leases for copying equipment. During fiscal year 2005, the School District entered into a new capitalized lease for copying equipment. The new lease for copying equipment included an amount for the early retirement of the existing capital lease, and the existing equipment was taken on trade as part of the terms of the new lease agreement. Therefore, capitalized copying equipment is less than the amount of the outstanding capital lease liability in the amount of the difference between the book value of the traded assets and the amount received for retirement of the existing lease.

The leases meet 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 have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in government wide statements governmental activities in the amount of \$167,128, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability, net of the difference between the book value of the traded assets and the amount received for retirement of the existing lease, was recorded in the government wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$150,416. Principal payments in fiscal year 2005 totaled \$60,555 in the governmental funds.

Future minimum lease payments through 2006 are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	\$35,215	\$17,085	\$52,300
2007	36,727	13,289	50,016
2008	40,775	9,241	50,016
2009	45,269	4,748	50,017
2010	20,152	535	20,687
Total	<u>\$178,138</u>	<u>\$44,898</u>	<u>\$223,036</u>

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**NOTE 15 - LONG - TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Outstanding 6/30/04	Additions	Deductions	Outstanding 6/30/05	Due In One Year
<b>General Obligation Bonds</b>					
<b><i>1992 School Improvement Bonds</i></b>					
Capital Appreciation Bonds, \$100,217 @ 5.6%-5.7%	\$47,784	\$0	\$47,784	\$0	\$0
Accretion of Interest, \$199,784 @ 9.5%	95,089	0	95,089	0	0
Total School Improvement Bonds	142,873	0	142,873	0	0
<b><i>2002 School Facilities Construction, Improvement, and Refunding Bonds</i></b>					
Serial/Term Bonds, \$3,720,000 @ 1.55%-5.5%	3,660,000	0	95,000	3,565,000	245,000
Total School Facilities and Refunding Bonds	3,660,000	0	95,000	3,565,000	245,000
<b><i>2004 School Facilities and Improvement Bonds</i></b>					
Serial/Term Bonds, \$1,730,405 @ 2.0%-5.25%	1,730,405	0	75,405	1,655,000	80,000
Premium, \$69,369	67,563	0	4,336	63,227	0
Total School Facilities and Improvement Bonds	1,797,968	0	79,741	1,718,227	80,000
Total General Obligation Bonds	5,600,841	0	317,614	5,283,227	325,000
Capital Leases	44,778	193,915	60,555	178,138	35,215
Compensated Absences	417,950	80,724	16,844	481,830	16,844
Total General Long-Term Obligations	\$6,063,569	\$274,639	\$395,013	\$5,943,195	\$377,059

Capital leases will be paid from the General Fund. Compensated absences will be paid from the general and food service funds.

*1992 School Improvement Bonds* - (the 1992 Bonds) were used to fund the construction of a new high school and sewage treatment facility, and the renovations of existing school buildings, as approved by voters in May 1985. The 1992 Bonds were general obligation bonds issued in the amount of \$2,500,217, which consisted of serial, term and capital appreciation (deep discount) bonds, \$1,570,000, \$830,000, and \$100,217, respectively. The School District fully repaid the serial bonds and refunded the term bonds associated with this issue through the issuance of the 2002 School Facilities Construction and Improvement and Refunding Bonds. After the refunding, only the capital appreciation bonds remained outstanding on this issue. During fiscal year 2005, the final one of these bonds was repaid. The bonds were retired from the Debt Service Fund from the proceeds of a bond issue tax levy. No principal was outstanding at June 30, 2005. In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new facilities.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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*2002 School Facilities Construction and Improvement and Refunding Bonds* - In November 2001 voters approved a bond issue to fund the construction of a new K-8 building and renovations and additions to the School District's high school. On September 26, 2002, general obligation bonds (the 2002 Bonds) were issued in the amount of \$3,720,000, which consisted of serial and term bonds. Of the total, \$830,000 of the bonds were issued to refund a portion of the 1992 Bonds; and \$2,890,000 of the bonds were issued to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a 23 year period, with final maturity at December 1, 2026. The bonds are being retired from the Debt Service Fund from the proceeds of a bond issue tax levy. In connection with the passage of the 2002 Bonds, the School District also extended the half mill levy for maintenance of facilities.

The term bonds maturing on December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2016	<u><u>\$125,000</u></u>

The remaining principal amount of such bonds (\$130,000) will be paid at stated maturity on December 1, 2017.

The term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2018	\$130,000
2019	135,000
2020	140,000
2021	<u>150,000</u>
	<u><u>\$555,000</u></u>

The remaining principal amount of such bonds (\$155,000) will be paid at stated maturity on December 1, 2022.



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The term bonds maturing on December 1, 2026 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2023	\$165,000
2024	170,000
2025	<u>180,000</u>
	<u><u>\$515,000</u></u>

The remaining principal amount of such bonds (\$190,000) will be paid at stated maturity on December 1, 2026.

The bonds maturing after December 1, 2012 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2012, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

When partial redemption is authorized, the bonds or portions thereof will be selected by lot within a maturity in such manner as the Bond Registrar may determine, provided, however, that the portion of any such bond so selected will be in the amount of \$5,000 or any integral multiple thereof.

Principal and Interest requirements to retire the 2002 School Facilities Construction, Improvement, and Refunding Bonds at June 30, 2005 are as follows:

<u>Fiscal Year Ending June 30, 2005</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$245,000	\$148,254	\$393,254
2007	245,000	139,679	384,679
2008	250,000	131,017	381,017
2009	255,000	122,179	377,179
2010	265,000	113,079	378,079
2011-2015	525,000	498,240	1,023,240
2016-2020	630,000	384,628	1,014,628
2021-2025	780,000	201,154	981,154
2026-2027	<u>370,000</u>	<u>19,219</u>	<u>389,219</u>
Total	<u>\$3,565,000</u>	<u>\$1,757,449</u>	<u>\$5,322,449</u>

*2004 School Facilities and Improvement Bonds* - On February 1, 2004, the School District issued \$1,730,405 in voted general obligation bonds (the 2004 bonds) which included serial and term bonds to pay the for the improvement of the activity complex at Buckeye Trail High School. The bonds were issued for a sixteen year period with a final maturity at December 1, 2019. The bonds were issued at a

**East Guernsey Local School District**  
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premium of \$69,369, which is reported as a reduction to bonds payable. This premium is being amortized to interest expense over the life of the bonds using the straight-line method. The issuance costs of \$65,295 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The bonds are being retired from the Debt Service Fund from the proceeds of a bond issue tax levy. The remaining balance in deferred charges at June 30, 2005 is \$59,514.

The term bonds maturing on December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2015	\$125,000
2016	<u>130,000</u>
	<u><u>\$255,000</u></u>

The remaining principal amount of such bonds (\$140,000) will be paid at stated maturity on December 1, 2017.

The term bonds maturing on December 1, 2019 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2018	<u>\$145,000</u>

The remaining principal amount of such bonds (\$155,000) will be paid at stated maturity on December 1, 2019.

The bonds maturing after December 1, 2014 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2014, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

When partial redemption is authorized, the bonds or portions thereof will be selected by lot within a maturity in such manner as the Bond Registrar may determine, provided, however, that the portion of any such bond so selected will be in the amount of \$5,000 or any integral multiple thereof.

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Principal and Interest requirements to retire the 2004 School Facilities and Improvement Bonds at June 30, 2005 are as follows:

Fiscal Year Ending June 30, 2005	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$80,000	\$61,345	\$141,345
2007	80,000	59,745	139,745
2008	85,000	58,095	143,095
2009	90,000	56,232	146,232
2010	95,000	53,985	148,985
2011-2015	530,000	225,038	755,038
2016-2020	<u>695,000</u>	<u>92,145</u>	<u>787,145</u>
Total	<u>\$1,655,000</u>	<u>\$606,585</u>	<u>\$2,261,585</u>

The School District's overall legal debt margin was \$3,898,168, with an unvoted debt margin of \$91,526 at June 30, 2005.

**NOTE 16 – CONTRACTUAL COMMITMENTS**

As of June 30, 2005, the School District had the following contractual purchase commitments:

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<b>Contractor/Project</b>	<b>Fund</b>	<b>Purchase Commitment</b>	<b>Amounts Paid as of 6/30/05</b>	<b>Amounts Remaining on Contracts</b>
Baird Brothers - Brick	Classroom Facilities	\$129,260	\$129,260	\$0
York International - Unit Ventilators	Classroom Facilities	94,289	94,289	0
Nicolozakes - Site Preparation	Classroom Facilities	808,280	808,280	0
The Knoch Company - General Trades	Classroom Facilities	7,292,381	7,102,520	189,861
Traditional Harwoods - Gym Floor	Classroom Facilities	62,232	62,232	0
Peterman Plumbing - Plumbing	Classroom Facilities	1,052,225	1,052,225	0
The Geo. P. Frueh Co. - HVAC	Classroom Facilities	3,767,782	3,633,760	134,022
S A Comunale Co. - Fire Protection	Classroom Facilities	427,929	427,929	0
Hilscher Clarke - Electrical	Classroom Facilities	1,423,111	1,386,321	36,790
Sun Technologies - Technology Infrastructure	Classroom Facilities	217,977	215,422	2,555
Louis R. Polster - Kitchen Equipment	Classroom Facilities	166,693	166,693	0
Sun Technologies - Technology Equipment	Classroom Facilities	558,362	546,055	12,307
The Comm Group - Security	Classroom Facilities	133,000	121,027	11,973
Greenleaf Landscaping - Landscaping	Classroom Facilities	103,455	100,428	3,027
David Williams Company - activity area	Classroom Facilities	206,833	206,833	0
The Knoch Company - flooring	Classroom Facilities	4,171	0	4,171
Tom Sextion - loose furnishings	Classroom Facilities	256,094	256,094	0
Peterman - demolition	Classroom Facilities	357,000	243,540	113,460
Miscellaneous Contracts - Architects, Management, Legal Fee, Etc.	Classroom Facilities	3,967,377	3,805,899	161,478
All Star Bleachers - Grandstand	Activity Complex	214,910	155,563	59,347
Raeder Construction - General Trades	Activity Complex	938,016	850,779	87,237
Genesis Electric - Electrical	Activity Complex	155,131	155,131	0
Enviro Flow Co. - HVAC, Plumbing	Activity Complex	190,447	190,447	0
Miscellaneous Contracts - Architects, Management, Legal Fee, Etc.	Activity Complex	368,631	361,435	7,196
<b>Totals</b>		<b>\$22,895,586</b>	<b>\$22,072,162</b>	<b>\$823,424</b>

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**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

*Mid East Ohio Career and Technology Center* - The Mid East Ohio Career and Technology Center (MEOCTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the thirteen participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2005, the School District made no contributions to the MEOCTC. To obtain financial information write to the Mid East Ohio Career and Technology Center, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

*Ohio Mid-Eastern Regional Educational Service Agency* - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2005, the total amount paid to OME-RESA from the School District was \$33,836. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

*East Central Ohio Special Education Regional Resource Center* - The East Central Ohio Special Education Regional Resource Center (ECOSERRC) is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECOSERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECOSERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECOSERRC.

*Metropolitan Educational Council (MEC)* - The Metropolitan Educational Council is a consortium of school districts and related agencies in Ohio. The organization is composed of over 135 members. The governing board is comprised of either the superintendent or his designated representative from each participating school district in Franklin County and one representative from each county outside of Franklin County. Each year the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District's membership payment to MEC for calendar year 2005 was \$445. Financial information may be obtained from the Metropolitan Educational Council, at 6100 Channingway Blvd., Suite 604, Columbus, Ohio 43232.

**NOTE 18 - PUBLIC ENTITY POOLS**

**A. Insurance Purchasing Pools**

*Ohio School Boards Association Workers' Compensation Group Rating Plan* - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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*Ohio School Plan* – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims and establishing agreements between OSP and member schools.

**B. Claims Servicing Pool**

*The Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan* - The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of sixty-three members. Each member district has a voting interest in the pool. The Plan's business and affairs are conducted by a nine member Board of Directors elected by the member districts. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

**NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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 year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. In prior years the School District expended the budget reserve amount pursuant to State Statute, and as a result no budget reserve exists at June 30, 2005.

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

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0
Current Year Set-aside Requirement	173,574	173,574
Current Year Offsets	0	(40,535)
Qualifying Disbursements	(167,820)	(181,067)
Qualifying Capital Disbursements from Bond Proceeds	<u>0</u>	<u>(1,001,864)</u>
Totals	<u>\$5,754</u>	<u>(\$1,049,892)</u>
Allowable Carry Forward for Fiscal Year 2005	0	(1,001,864)
Allowable Carry Forward at June 30, 2004	(402,617)	(2,180,921)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$396,863)</u>	<u>(\$3,182,785)</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$0</u>	<u>\$0</u>

The School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside. The District also had current year and prior year capital expenditures in connection with a school facilities project that may be carried forward to offset future set-aside requirements.

**NOTE 20 – 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 are 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, 2005.

**B. Litigation**

The School District is not currently a party to any legal proceedings.

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**EAST GUERNSEY LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b><u>U.S. Department of Agriculture</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$14,300	\$0	\$14,300
School Breakfast Program	069682-05PU-2004	10.553	15,832		15,832	
School Breakfast Program	069682-05PU-2005	10.553	41,238		41,238	
Total School Breakfast Program			<u>57,070</u>	<u>0</u>	<u>57,070</u>	<u>0</u>
National School Lunch Program	069682-LLP1-2004	10.555	409		409	
National School Lunch Program	069682-LLP1-2005	10.555	905		905	
National School Lunch Program	069682-LLP4-2004	10.555	20,367		20,367	
National School Lunch Program	069682-LLP4-2005	10.555	97,026		97,026	
Total National School Lunch Program			<u>118,707</u>	<u>0</u>	<u>118,707</u>	<u>0</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			175,777	14,300	175,777	14,300
<b><u>U.S. Department of Education</u></b>						
<i>Direct Program:</i>						
Twenty-First Century Community Learning Centers		84.287	16,408		16,408	
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	069682-C1S1-2004	84.010	34,677		71,864	
	069682-C1S1-2005	84.010	340,441		337,623	
Total Title I Grants to Local Educational Agencies			<u>375,118</u>	<u>0</u>	<u>409,487</u>	<u>0</u>
Special Education Grants to States (Title VI-B)	069682-6BSF-2004	84.027	2,427		21,685	
	069682-6BSF-2005	84.027	267,575		267,575	
Total Special Education Grants to States			<u>270,002</u>	<u>0</u>	<u>289,260</u>	<u>0</u>
Safe and Drug Free Schools Grants	069682-DRS1-2005	84.186	8,507		9,356	
Innovative Education Program Strategies Grant (Title VI)	069682-C2S1-2005	84.298	4,841		4,841	
Education Technology State Grants (Title II-D)	069682-TJS1-2005	84.318	8,353		8,482	
Advanced Placement Test Fee Program	AVTF-2004	84.330	52		52	
	AVTF-2005	84.330	156		156	
Total Advanced Placement Test Fee Program			<u>208</u>	<u>0</u>	<u>208</u>	<u>0</u>
Improving Teacher Quality State Grants (Title II-A)	069682-TRS1-2004	84.367	7,202		12,271	
	069682-TRS1-2005	84.367	65,725		65,714	
Total Improving Teacher Quality State Grants			<u>72,927</u>	<u>0</u>	<u>77,985</u>	<u>0</u>
Total U.S. Department of Education			<u>756,364</u>	<u>0</u>	<u>816,027</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$932,141</u></b>	<b><u>\$14,300</u></b>	<b><u>\$991,804</u></b>	<b><u>\$14,300</u></b>

*The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.*

**EAST GUERNSEY LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed that federal monies are expended first.

**NOTE C – MATCHING REQUIREMENTS**

Certain Federal programs require the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



## Auditor of State Betty Montgomery

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

East Guernsey Local School District  
Guernsey County  
237 Beymer Road, P.O. Box 128  
Old Washington, Ohio 43768

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the East Guernsey Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated February 6, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated February 6, 2006, we reported an other matter related to noncompliance we deemed immaterial.

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

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

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

**Betty Montgomery**  
Auditor of State

February 6, 2006



## **Auditor of State Betty Montgomery**

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

East Guernsey Local School District  
Guernsey County  
237 Beymer Road, P.O. Box 128  
Old Washington, Ohio 43768

To the Board of Education:

#### **Compliance**

We have audited the compliance of the East Guernsey Local School District, Guernsey County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to the major federal program for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

#### **Internal Control over Compliance**

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

**Betty Montgomery**  
Auditor of State

February 6, 2006

**EAST GUERNSEY SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under ' .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Grants to States, CFDA #84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

**EAST GUERNSEY LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS  
*OMB CIRCULAR A-133 ' .505*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**EAST GUERNSEY LOCAL SCHOOL DISTRICT**

**GUERNSEY 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  
MARCH 21, 2006**