



Mary Taylor, CPA  
Auditor of State



**EAST GUERNSEY LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

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# Mary Taylor, CPA

Auditor of State

## 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 East Guernsey Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2006, 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 East Guernsey Local School District, Guernsey County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, 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 2, 2007, 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.

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 a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 2, 2007

**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
*for the Fiscal Year Ended June 30, 2006*  
*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, 2006. 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 2006 are as follows:

- In total, net assets decreased \$2,317,636.
- General revenues accounted for \$8,669,287 in revenue or 77 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,584,139 or 23 percent of total revenues of \$11,253,426.
- Total assets of governmental activities decreased \$2,178,153 primarily due to the decrease in cash balance, and the decrease in capital assets associated with annual depreciation expense and the disposal of district assets.
- The School District had \$13,571,062 in expenses related to governmental activities; only \$2,584,139 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$8,669,287 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 \$8,953,834 in revenues and \$9,493,269 in expenditures. The General Fund's balance decreased \$573,866. The Debt Service Fund had \$606,404 in revenues and \$548,825 in expenditures. The Debt Service Fund's balance increased \$57,579. The Classroom Facilities Fund had \$137,921 in revenues and \$1,400,739 in expenditures. The Classroom Facilities Fund's balance decreased \$1,262,818.

**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.

**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
*for the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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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 2006?" 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, debt 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.



**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
*for the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**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 2006 compared to 2005.

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

	<b>Governmental Activities</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Assets</b>			
Current and Other Assets	\$7,135,910	\$8,308,472	(\$1,172,562)
Capital Assets	25,435,047	26,440,638	(1,005,591)
<b>Total Assets</b>	32,570,957	34,749,110	(2,178,153)
<b>Liabilities</b>			
Long-Term Liabilities	5,606,329	5,943,195	(336,866)
Other Liabilities	3,826,260	3,349,911	476,349
<b>Total Liabilities</b>	9,432,589	9,293,106	139,483
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	20,452,406	22,899,639	(2,447,233)
Restricted	1,960,518	1,380,002	580,516
Unrestricted	725,444	1,176,363	(450,919)
<b>Total Net Assets</b>	\$23,138,368	\$25,456,004	(\$2,317,636)

Total assets decreased \$2,178,153. The decrease was primarily due to the decrease in cash and cash equivalents as the construction project was completed, and a decrease in capital assets of \$1,005,591 due to normal depreciation and the disposal of assets.

Total liabilities increased \$139,483. An increase in intergovernmental payable to the Ohio School Facilities Commission (OSFC) of \$1,037,377 was mostly offset by the decrease in contracts and retainage payable associated with the completion of the classroom facilities project, as well as bond payments that reduced long term debt.

Table 2 (on the following page) shows the changes in net assets for the fiscal year 2006 compared to fiscal year 2005, as reflected on the Statement of Activities.

**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
for the Fiscal Year Ended June 30, 2006  
Unaudited

**Table 2**  
**Change in Net Assets**

	<b>Governmental Activities</b>		
	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$1,047,481	\$1,018,369	\$29,112
Operating Grants and Contributions	1,509,991	1,495,323	14,668
Capital Grants and Contributions	26,667	32,145	(5,478)
Total Program Revenues	<u>2,584,139</u>	<u>2,545,837</u>	<u>38,302</u>
General Revenues			
Property Taxes	2,395,965	2,788,331	(392,366)
Grants and Entitlements - Classroom Facilities	0	1,502,320	(1,502,320)
Grants and Entitlements not Restricted to Specific Programs	5,976,202	5,799,121	177,081
Investment Earnings	159,260	125,508	33,752
Miscellaneous	137,860	82,654	55,206
Total General Revenues	<u>8,669,287</u>	<u>10,297,934</u>	<u>(1,628,647)</u>
<b>Total Revenues</b>	<u>11,253,426</u>	<u>12,843,771</u>	<u>(1,590,345)</u>
<b>Program Expenses</b>			
Instruction			
Regular	5,013,682	5,692,214	(678,532)
Special	1,640,414	1,202,062	438,352
Vocational	353,192	355,901	(2,709)
Adult/Continuing	6,052	5,744	308
Support Services			
Pupil	697,228	749,004	(51,776)
Instructional Staff	404,301	497,882	(93,581)
Board of Education	37,136	31,360	5,776
Administration	980,511	1,160,219	(179,708)
Fiscal	340,214	361,830	(21,616)
Operation and Maintenance of Plant	1,104,321	883,812	220,509
Pupil Transportation	902,087	887,273	14,814
Central	35,674	34,733	941
Food Service Operations	401,426	440,780	(39,354)
Extracurricular Activities	391,866	350,605	41,261
Intergovernmental	1,037,377	0	1,037,377
Interest and Fiscal Charges	225,581	238,607	(13,026)
<b>Total Expenses</b>	<u>13,571,062</u>	<u>12,892,026</u>	<u>679,036</u>
<b>Decrease in Net Assets</b>	(2,317,636)	(48,255)	(2,269,381)
Net Assets Beginning of Year	<u>25,456,004</u>	<u>25,504,259</u>	<u>(48,255)</u>
Net Assets End of Year	<u>\$23,138,368</u>	<u>\$25,456,004</u>	<u>(\$2,317,636)</u>

**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
*for the Fiscal Year Ended June 30, 2006*  
*Unaudited*

In 2006, 21 percent of the School District's revenues were from property taxes and 53 percent were from unrestricted grants and entitlements. Property taxes had a significant decrease from the prior year primarily due to the change in the amount available as an advance on the August tax settlement from prior years. Due to the completion of the OSFC project, no classroom facilities entitlements were received in fiscal year 2006, resulting in a notable decrease in grants and entitlements revenues.

Program revenues accounted for 23 percent of the District's revenues in fiscal year 2006. These revenues consist of tuition and fees, charges for providing lunches to students, grants for specified purposes, and contributions and donations.

Instructional programs comprise 52 percent of total governmental program expenses. Of the instructional expenses, 71 percent is for regular instruction, 23 percent for special instruction, and 6 percent for vocational and adult/continuing instruction. Special instruction expenses increased from 17 percent in 2005 to 23 percent of all instructional expenses in 2006. The intergovernmental payable to the Ohio School Facilities Commission represents 8 percent of total governmental expenses. See Note 14 for the specifics of the liability.

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions 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**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Instruction				
Regular	\$5,013,682	\$5,692,214	\$4,132,671	\$4,876,550
Special	1,640,414	1,202,062	885,826	430,519
Vocational	353,192	355,901	298,494	312,351
Adult/Continuing	6,052	5,744	6,052	5,744
Support Services				
Pupil	697,228	749,004	616,061	668,245
Instructional Staff	404,301	497,882	271,427	358,671
Board of Education	37,136	31,360	37,136	31,360
Administration	980,511	1,160,219	915,520	1,087,110
Fiscal	340,214	361,830	340,214	361,830
Operation and Maintenance of Plant	1,104,321	883,812	1,102,525	879,282
Pupil Transportation	902,087	887,273	881,774	856,156
Central	35,674	34,733	9,887	11,030
Food Service Operations	401,426	440,780	(4,991)	59,565
Extracurricular Activities	391,866	350,605	231,369	169,169
Intergovernmental Payable	1,037,377	0	1,037,377	0
Interest and Fiscal Charges	225,581	238,607	225,581	238,607
<b>Total Expenses</b>	<b>\$13,571,062</b>	<b>\$12,892,026</b>	<b>\$10,986,923</b>	<b>\$10,346,189</b>

**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
*for the Fiscal Year Ended June 30, 2006*  
*Unaudited*

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 76 percent of instruction costs and 93 percent of support services costs are supported through taxes and other general revenues. At the same time, general revenues were no longer needed to help fund food service operations in fiscal year 2006, an improvement from the 14 percent of general fund revenues needed for this purpose in fiscal year 2005.

**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 \$11,234,503 and expenditures of \$13,003,124. The School District's expenditures exceeded revenues during the fiscal year. General fund had an excess of expenditures over revenues of \$539,435. Expenditures in excess of revenues in the classroom facilities project totaled \$1,262,818 as the project was completed and the intergovernmental payable to the Ohio School Facilities Commission was recognized.

**General Fund Budgeting Highlights**

The School District's appropriations are prepared according to Ohio law and are based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant appropriated fund is the general fund.

During the course of fiscal 2006 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 2006 the School District had \$25,435,047 invested in land, land improvements, buildings and improvements, furniture, equipment and vehicles. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005 capital assets.

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

	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2005</b>
Land	\$164,382	\$177,901
Land Improvements	2,318,366	2,381,647
Buildings and Improvements	22,215,815	23,000,997
Furniture and Equipment	401,422	467,637
Vehicles	335,062	412,456
<b>Totals</b>	<b>\$25,435,047</b>	<b>\$26,440,638</b>

**East Guernsey Local School District**  
*Management's Discussion and Analysis*  
*for the Fiscal Year Ended June 30, 2006*  
*Unaudited*

See Note 9 to the financial statements for more detailed information of the School District's capital assets. The total value of the School District's building and improvements decreased \$785,182 in fiscal year 2006 as a result of usual depreciation expense and the disposal of district property.

**Debt**

At June 30, 2006, the School District had \$5,038,074 in general obligation bonds and capital leases outstanding.

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

	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2005</b>
2002 School Facilities & Refunding Bonds <i>BTES/BTMS Construction and BTHS Renovations/Additions</i>	\$3,320,000	\$3,565,000
2004 School Facilities Bonds <i>Activity Complex</i>	1,575,000	1,655,000
Capital Leases	143,074	178,138
<b>Totals</b>	<b>\$5,038,074</b>	<b>\$5,398,138</b>

See Note 16 for more information regarding debt. Outstanding bond debt was reduced by 6 percent in fiscal year 2006 as a result of scheduled debt payments. No new debt was issued.

**Economic Factors**

The East Guernsey Local School District has achieved Effective School status as awarded by the Ohio Department of Education for the past five 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 School District has a history of deficit spending. Each historical year of the District's Board approved five year forecast reflects more expenditures than revenues, which has eroded prior carryover balances. To address this situation, the Board authorized an expenditure reduction plan that has been implemented in phases. The plan includes significant reductions in staff, student services and programs, and a delay in the purchase of school buses and textbooks. Per the Board's most recent forecast dated October 2006, deficit spending has been eliminated in three of the five forecast years, and cash balances are projected to remain positive during the five year period without further reductions.

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.

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

This financial report is designed to provide the citizens, taxpayers, investors and creditors of the East Guernsey Local School District with a general overview of the School District's finances and to show the School District's accountability for the money it receives. For any requests for additional financial information or questions about this report, contact Gaye Lodge, Treasurer at East Guernsey Local School District, 237 Beymer Road, Old Washington, Ohio 43768 or email at [eg\\_gaye@omeres.net](mailto:eg_gaye@omeres.net).

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**East Guernsey Local School District**  
*Statement of Net Assets*  
*June 30, 2006*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,156,923
Accounts Receivable	428
Intergovernmental Receivable	73,720
Cash and Cash Equivalents with Fiscal Agent	635,321
Prepaid Items	126,556
Materials and Supplies Inventory	37,753
Cash and Cash Equivalents with Escrow Agent	26,404
Property Taxes Receivable	3,023,372
Deferred Charges	55,433
Non-Depreciable Capital Assets	164,382
Depreciable Capital Assets, Net	25,270,665
<i>Total Assets</i>	32,570,957
<b>Liabilities</b>	
Accounts Payable	55,624
Accrued Wages and Benefits Payable	808,648
Contracts Payable	49,656
Accrued Interest Payable	12,308
Vacation Benefits Payable	26,657
Claims Payable	67,580
Intergovernmental Payable	1,310,106
Retainage Payable	26,404
Deferred Revenue	1,469,277
Long-Term Liabilities:	
Due Within One Year	390,738
Due In More Than One Year	5,215,591
<i>Total Liabilities</i>	9,432,589
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	20,452,406
Restricted for:	
Debt Service	1,025,780
Capital Projects	636,171
Classroom Facilities Maintenance	189,022
Federal Programs	41,202
Other Purposes	68,343
Unrestricted	725,444
<i>Total Net Assets</i>	\$23,138,368

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Activities*  
for the Fiscal Year Ended June 30, 2006

	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	\$5,013,682	\$730,501	\$138,478	\$12,032	(\$4,132,671)
Special	1,640,414	0	754,588	0	(885,826)
Vocational	353,192	0	54,698	0	(298,494)
Adult/Continuing	6,052	0	0	0	(6,052)
Support Services:					
Pupil	697,228	0	81,167	0	(616,061)
Instructional Staff	404,301	0	132,874	0	(271,427)
Board of Education	37,136	0	0	0	(37,136)
Administration	980,511	0	64,991	0	(915,520)
Fiscal	340,214	0	0	0	(340,214)
Operation and Maintenance of Plant	1,104,321	1,796	0	0	(1,102,525)
Pupil Transportation	902,087	0	5,678	14,635	(881,774)
Central	35,674	0	25,787	0	(9,887)
Food Service Operations	401,426	154,687	251,730	0	4,991
Extracurricular Activities	391,866	160,497	0	0	(231,369)
Intergovernmental Payable	1,037,377	0	0	0	(1,037,377)
Interest and Fiscal Charges	225,581	0	0	0	(225,581)
<b>Total Governmental Activities</b>	<b>\$13,571,062</b>	<b>\$1,047,481</b>	<b>\$1,509,991</b>	<b>\$26,667</b>	<b>(10,986,923)</b>
 <b>General Revenues</b>					
					1,812,821
					37,438
					545,706
					5,976,202
					159,260
					137,860
					<u>8,669,287</u>
					Change in Net Assets (2,317,636)
					<u>Net Assets Beginning of Year 25,456,004</u>
					<u>Net Assets End of Year \$23,138,368</u>

See accompanying notes to the basic financial statements



**East Guernsey Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$339,470	\$754,377	\$1,551,649	\$511,427	\$3,156,923
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	0	0	26,404	0	26,404
Receivables:					
Property Taxes	2,298,767	677,445	0	47,160	3,023,372
Accounts	273	0	0	155	428
Intergovernmental	3,334	0	0	70,386	73,720
Prepaid Items	107,153	0	0	19,403	126,556
Materials and Supplies Inventory	33,776	0	0	3,977	37,753
<i>Total Assets</i>	<u>\$2,782,773</u>	<u>\$1,431,822</u>	<u>\$1,578,053</u>	<u>\$652,508</u>	<u>\$6,445,156</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$50,478	\$0	\$0	\$5,146	\$55,624
Accrued Wages and Benefits	700,307	0	0	108,341	808,648
Contracts Payable	0	0	0	49,656	49,656
Retainage Payable	0	0	26,404	0	26,404
Intergovernmental Payable	233,556	0	1,037,377	39,173	1,310,106
Deferred Revenue	1,693,253	493,439	0	72,368	2,259,060
<i>Total Liabilities</i>	<u>2,677,594</u>	<u>493,439</u>	<u>1,063,781</u>	<u>274,684</u>	<u>4,509,498</u>
<b>Fund Balances (Deficit)</b>					
Reserved for Encumbrances	169,518	0	53,115	34,404	257,037
Reserved for Property Taxes	605,514	184,006	0	12,577	802,097
Unreserved, Undesignated, Reported in:					
General Fund	(669,853)	0	0	0	(669,853)
Special Revenue Funds	0	0	0	212,432	212,432
Debt Service Fund	0	754,377	0	0	754,377
Capital Projects Funds	0	0	461,157	118,411	579,568
<i>Total Fund Balances</i>	<u>105,179</u>	<u>938,383</u>	<u>514,272</u>	<u>377,824</u>	<u>1,935,658</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,782,773</u>	<u>\$1,431,822</u>	<u>\$1,578,053</u>	<u>\$652,508</u>	<u>\$6,445,156</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, 2006*

**Total Governmental Fund Balances** \$1,935,658

*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. 25,435,047

Other long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the funds.

Property Taxes	751,998	
Grants	37,785	

Total 789,783

Unamortized issuance costs represent deferred charges which  
do not provide current financial resources and, therefore, are  
not reported in the funds. 55,433

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. 567,741

Long-term liabilities are not due and payable in the current period  
and therefore are not reported in the funds:

General Obligation Bonds	4,895,000	
Bond Premium	58,891	
Compensated Absences	509,364	
Vacation Benefits Payable	26,657	
Capital Leases	143,074	
Accrued Interest Payable	12,308	

Total (5,645,294)

*Net Assets of Governmental Activities* \$23,138,368

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, 2006*

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$1,796,421	\$540,420	\$0	\$37,121	\$2,373,962
Intergovernmental	6,210,225	65,984	73,053	1,170,905	7,520,167
Interest	76,535	0	64,868	4,138	145,541
Tuition and Fees	730,501	0	0	0	730,501
Extracurricular Activities	1,667	0	0	158,830	160,497
Rent	1,796	0	0	0	1,796
Contributions and Donations	0	0	0	9,492	9,492
Charges for Services	0	0	0	154,687	154,687
Miscellaneous	136,689	0	0	1,171	137,860
<i>Total Revenues</i>	<u>8,953,834</u>	<u>606,404</u>	<u>137,921</u>	<u>1,536,344</u>	<u>11,234,503</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	3,983,615	0	0	107,355	4,090,970
Special	1,015,922	0	0	509,497	1,525,419
Vocational	317,820	0	0	0	317,820
Adult/Continuing	6,052	0	0	0	6,052
Support Services:					
Pupil	530,368	0	0	104,972	635,340
Instructional Staff	267,363	0	0	133,193	400,556
Board of Education	37,136	0	0	0	37,136
Administration	884,058	0	0	65,861	949,919
Fiscal	326,966	14,226	0	981	342,173
Operation and Maintenance of Plant	1,085,593	0	0	16,733	1,102,326
Pupil Transportation	832,447	0	0	7,504	839,951
Central	1,475	0	0	34,079	35,554
Food Service Operations	0	0	0	389,415	389,415
Extracurricular Activities	152,305	0	0	131,155	283,460
Capital Outlay	0	0	363,362	59,546	422,908
Debt Service:					
Principal Retirement	35,064	325,000	0	0	360,064
Interest and Fiscal Charges	17,085	209,599	0	0	226,684
Intergovernmental	0	0	1,037,377	0	1,037,377
<i>Total Expenditures</i>	<u>9,493,269</u>	<u>548,825</u>	<u>1,400,739</u>	<u>1,560,291</u>	<u>13,003,124</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(539,435)	57,579	(1,262,818)	(23,947)	(1,768,621)
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	10	0	0	30	40
Transfers In	0	0	0	34,441	34,441
Transfers Out	(34,441)	0	0	0	(34,441)
Total Other Financing Sources (Uses)	<u>(34,431)</u>	<u>0</u>	<u>0</u>	<u>34,471</u>	<u>40</u>
<i>Net Change in Fund Balances</i>	(573,866)	57,579	(1,262,818)	10,524	(1,768,581)
<i>Fund Balances Beginning 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>
<i>Fund Balances End of Year</i>	<u>\$105,179</u>	<u>\$938,383</u>	<u>\$514,272</u>	<u>\$377,824</u>	<u>\$1,935,658</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, 2006*

**Net Change in Fund Balances - Total Governmental Funds** (\$1,768,581)

*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 depreciation exceeded capital outlay in the current period.

Capital Outlay	18,649	
Depreciation	(978,706)	
Total	(960,057)	(960,057)

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.

(45,534)

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

Grants	(16,799)	
Property Taxes	22,003	
Total	5,204	5,204

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	325,000	
Capital Leases	35,064	
Total	360,064	360,064

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	848	
Premium	4,336	
Total	5,184	5,184

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)

Some expenses reported in the statement of activities, such as compensated absences and vacation benefits payable, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Vacation Benefits Payable	755	
Compensated Absences Payable	(27,534)	
Total	(26,779)	(26,779)

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.

116,944

*Changes in Net Assets of Governmental Activities*

(\$2,317,636)

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, 2006*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Property Taxes	\$1,746,075	\$1,788,485	\$1,791,369	\$2,884
Intergovernmental	6,291,095	6,208,880	6,223,107	14,227
Interest	37,400	65,400	76,535	11,135
Tuition and Fees	615,500	729,911	730,920	1,009
Rent	1,100	1,800	1,796	(4)
Extracurricular Activities	0	0	1,667	1,667
Miscellaneous	25,400	41,223	44,185	2,962
<i>Total Revenues</i>	<u>8,716,570</u>	<u>8,835,699</u>	<u>8,869,579</u>	<u>33,880</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,572,336	4,681,514	4,620,235	61,279
Special	573,086	544,656	538,213	6,443
Vocational	321,213	342,119	339,912	2,207
Adult/Continuing	5,744	6,052	6,052	0
Support Services:				
Pupils	524,065	538,619	537,607	1,012
Instructional Staff	295,111	281,833	276,589	5,244
Board of Education	42,219	37,336	36,541	795
Administration	925,299	933,755	934,234	(479)
Fiscal	340,189	332,228	331,218	1,010
Operation and Maintenance of Plant	966,124	1,038,320	1,038,188	132
Pupil Transportation	832,084	840,018	839,146	872
Central	35,864	927	343	584
Extracurricular Activities	163,812	153,654	154,511	(857)
<i>Total Expenditures</i>	<u>9,597,146</u>	<u>9,731,031</u>	<u>9,652,789</u>	<u>78,242</u>
Excess of Revenues Under Expenditures	<u>(880,576)</u>	<u>(895,332)</u>	<u>(783,210)</u>	<u>112,122</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	0	10	10
Transfers Out	0	(34,441)	(34,441)	0
Advances In	0	0	46,929	46,929
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(34,441)</u>	<u>12,498</u>	<u>46,939</u>
<i>Net Change in Fund Balance</i>	<u>(880,576)</u>	<u>(929,773)</u>	<u>(770,712)</u>	<u>159,061</u>
<i>Fund Balance at Beginning of Year</i>	605,038	605,038	605,038	0
Prior Year Encumbrances Appropriated	<u>284,681</u>	<u>284,681</u>	<u>284,681</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$9,143</u>	<u>(\$40,054)</u>	<u>\$119,007</u>	<u>\$159,061</u>

See accompanying notes to the basic financial statements

**East Guernsey Local School District**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2006*

	Governmental Activity <hr/> Internal Service Fund <hr/>
<b>Current Assets</b>	
Cash and Cash Equivalents with Fiscal Agent	\$635,321
<b>Current Liabilities</b>	
Claims Payable	<hr/> 67,580
<b>Net Assets</b>	
Unrestricted	<hr/> 567,741
<i>Total Net Assets</i>	<hr/> <hr/> \$567,741

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, 2006*

	<u>Governmental</u> <u>Activity</u> <u>Internal Service</u> <u>Fund</u>
<b>Operating Revenues</b>	
Charges for Services	\$1,499,616
Other Revenues	1,328
	<u>1,500,944</u>
<i>Total Operating Revenues</i>	<u>1,500,944</u>
<b>Operating Expenses</b>	
Purchased Services	325,168
Claims	1,072,551
	<u>1,397,719</u>
<i>Total Operating Expenses</i>	<u>1,397,719</u>
<i>Operating Income</i>	103,225
<b>Non-Operating Revenues</b>	
Interest	13,719
	<u>13,719</u>
<i>Change in Net Assets</i>	116,944
<i>Net Assets Beginning of Year</i>	<u>450,797</u>
<i>Net Assets End of Year</i>	<u><u>\$567,741</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, 2006*

	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	\$1,500,944
Cash Payments for Goods and Services	(325,168)
Cash Payments for Claims	(1,113,613)
	62,163
<i>Net Cash Provided By Operating Activities</i>	<i>62,163</i>
<b>Cash Flows from Investing Activities</b>	
Interest	13,719
	13,719
<i>Net Cash Provided by Investing Activities</i>	<i>13,719</i>
<i>Net Increase in Cash and Cash Equivalents</i>	<i>75,882</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>559,439</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$635,321</i>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating Income	\$103,225
Decrease in Claims Payable	(41,062)
	\$62,163
<i>Net Cash Provided By Operating Activities</i>	<i>\$62,163</i>
See accompanying notes to the basic financial statements	



**East Guernsey Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2006*

	<b>Private Purpose Trust Fund</b>	<b>Agency</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$10,323	\$46,238
Investments	44,584	0
	54,907	\$46,238
<i>Total Assets</i>	54,907	\$46,238
<b>Liabilities</b>		
Due to Students	0	\$46,238
	0	\$46,238
<i>Total Liabilities</i>	0	\$46,238
<b>Net Assets</b>		
Held in Trust for Scholarships	54,907	
	54,907	
<i>Total Net Assets</i>	\$54,907	

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, 2006*

	Private Purpose Trust Fund
<b>Additions</b>	
Contributions and Donations	\$300
Interest	2,429
Total Additions	2,729
<b>Deductions</b>	
Scholarships Awarded	1,136
<i>Change in Net Assets</i>	1,593
<i>Net Assets Beginning of Year</i>	53,314
<i>Net Assets End of Year</i>	\$54,907

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, 2006*

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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 59 classified employees, 84 certified teaching employees, and 8 administrators, who provide services to approximately 1,283 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 Centers, 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, 2006*

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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 general purpose 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 statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). 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:

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**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.

**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 uses are 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.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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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 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, 2006, but which were levied to finance fiscal year 2007 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.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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

**E. 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".

During fiscal year 2006, 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. 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, 2006.

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 2006 amounted to \$76,535, which includes \$68,399, 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, 2006, 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, 2006*

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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	15-50 Years
Buildings and Improvements	5-50 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. The School District records a liability for accumulated unused vacation when earned, for vacation eligible employees with more than one year of service.

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.

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

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



**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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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, judgments and compensated absences 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.

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 that 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.

**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 scholarships, various local district managed activities, and state grants restricted to

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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expenditures for specified purposes. The government-wide statement of net assets reports \$1,960,518 of restricted net assets. Of the restricted net assets, none have 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 appropriated. The major documents prepared are the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. 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 fund, function, object level for the general fund, and at the fund level for all other 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.

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 that 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

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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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, 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section", and GASB Statement 47, "Accounting for Termination Benefits".

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 44 provides guidance on the reporting of statistical information of the School District. The School District does not prepare a statistical section to accompany the basic financial statements, and therefore, the implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no 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).
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).

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*Notes to the Basic Financial Statements*  
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The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance

	General
GAAP Basis	(\$573,866)
Revenue Accruals	(84,255)
Advances In	46,929
Expenditure Accruals	60,984
Encumbrances	(220,504)
Budget Basis	(\$770,712)

**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 that 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:

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;

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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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, 2006, the School District's internal service fund had a balance of \$635,321 with OME-RESA, a public entity, 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 3/40. 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, \$289,132 of the School District's bank balance of \$482,697 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 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, 2006, the School District had an investment in STAROhio, which is part of the internal investment pool. The fair value of STAROhio was \$3,016,002, and the investment has an average maturity of 34.77 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

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the 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, 2006, are available to finance fiscal year 2006 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 that are measurable as of June 30, 2006 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

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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, 2006 was \$605,514 in the general fund, \$184,006 in the debt service fund, and \$12,577 in the classroom facilities special revenue fund. 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$80,867,190	88.16%	\$82,310,400	88.84%
Public Utility Personal	8,673,310	9.46%	8,701,550	9.39%
General Business Personal	2,183,000	2.38%	1,637,250	1.77%
	\$91,723,500	100.00%	\$92,649,200	100.00%
Tax Rate per \$1,000 of assessed valuation		\$33.30		\$33.30

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006, consisted of property taxes, intergovernmental receivables 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. Delinquent property taxes deemed collectable by the County Auditor and recorded as a receivable in the amount of \$751,998 may not be collected within one year. All other receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

**Governmental Activities**

Tuition and Fees from Other Districts	\$1,892
Federal Fuel Tax Refund	1,442
Title II-A	8,660
IDEA Part B	13,621
Title I	7,539
FEMA	37,785
Food Service Subsidy	2,781
Total	\$73,720

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**NOTE 8 – TRANSFERS**

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	<u>Transfer to</u>
	Other
	Governmental
<u>Transfer from</u>	<u>Funds</u>
General Fund	<u>\$34,441</u>

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.



**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
<b>Nondepreciable Capital Assets:</b>				
Land	\$177,901	\$0	(\$13,519)	\$164,382
<b>Total Nondepreciable Capital Assets</b>	<b>177,901</b>	<b>0</b>	<b>(13,519)</b>	<b>164,382</b>
<b>Depreciable Capital Assets:</b>				
Land Improvements	2,539,286	0	(71,511)	2,467,775
Buildings and Improvements	25,457,874	0	(14,945)	25,442,929
Furniture and Equipment	747,204	18,649	(22,134)	743,719
Vehicles	1,318,489	0	(76,258)	1,242,231
<b>Total Depreciable Capital Assets</b>	<b>30,062,853</b>	<b>18,649</b>	<b>(184,848)</b>	<b>29,896,654</b>
<b>Accumulated Depreciation:</b>				
Land Improvements	(157,639)	(32,716)	40,946	(149,409)
Buildings and Improvements	(2,456,877)	(785,348)	15,111	(3,227,114)
Furniture and Equipment	(279,567)	(83,248)	20,518	(342,297)
Vehicles	(906,033)	(77,394)	76,258	(907,169)
<b>Total Accumulated Depreciation</b>	<b>(3,800,116)</b>	<b>(978,706)</b>	<b>152,833</b>	<b>(4,625,989)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>26,262,737</b>	<b>(960,057)</b>	<b>(32,015)</b>	<b>25,270,665</b>
<b>Governmental Capital Assets, Net</b>	<b>\$26,440,638</b>	<b>(\$960,057)</b>	<b>(\$45,534)</b>	<b>\$25,435,047</b>

Depreciation expense was charged to governmental activities as follows:

<b>Instruction:</b>	
Regular	\$500,558
Special	94,531
Vocational	32,544
<b>Support Services:</b>	
Pupil	63,878
Instructional Staff	27,090
Administration	42,094
Fiscal	2,081
Operation of Maintenance and Plant	12,500
Pupil Transportation	77,775
Extracurricular	18,075
Food Service Operations	107,580
<b>Total Depreciation Expense</b>	<b>\$978,706</b>

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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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 2006, 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 are also protected by the Ohio School Insurance Program with a \$2,000,000 single occurrence limit and \$4,000,000 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 \$1,000,000 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 2006, 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 \$67,580 reported in the internal service fund at June 30, 2006 is based on information 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**  
*Notes to the Basic Financial Statements*  
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Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at End</u> <u>of Year</u>
2005	\$95,382	\$1,036,209	\$1,022,949	\$108,642
2006	108,642	1,072,551	1,113,613	67,580

**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, by calling (800) 878-5853, or by accessing the SERS website at [www.ohsers.org](http://www.ohsers.org).

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 the fiscal year 2006, 10.58 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, 2006, 2005 and 2004 were \$176,496, \$197,958, and \$183,859 respectively; 81.76 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for the fiscal years 2005 and 2004.

**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 members. 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, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$652,508, \$668,726, and \$646,692 respectively; 83.71 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for the fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,808 made by the School District and \$4,292 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 of Ohio have an option to choose Social Security or the SERS/STRSOhio. As of June 30, 2006, 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 partial 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.

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in

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the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$46,608 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All 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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2006 fiscal year, the School District paid \$68,455 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 the projected claims less premium contributions for the next fiscal year. Net health care costs for the year ending June 30, 2005 (the latest available information) were \$178,221,113. As of June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive 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, the EMIS coordinator and 260 day custodians/maintenance/groundskeeper 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 eligible employees upon termination of employment. Teachers, classified employees, and administrators who work less than 260 days do not earn vacation time. All 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 (except reemployed retirees). 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. Supplemental life insurance coverage

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of \$20,000 for certified employees and \$30,000 for classified employees is available by payroll deduction at a cost of \$0.16 per \$1,000 per month.

**NOTE 14 – OHIO SCHOOL FACILITIES PROJECT INTERGOVERNMENTAL LIABILITY**

The School District participated in the Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program (CFAP) to construct a new K-8 school building, to renovate and enlarge the School District's high school and to provide for the demolition of three elementary buildings that were abandoned after the construction. The project agreement entered into by the School District and the OSFC, signed December 2001, defined the project budget as \$19,271,677 from the OSFC and \$2,891,000 from the School District's bond issue that passed November 2001 for a project total of \$22,162,677. The OSFC provided 87% of the project costs, the School District provided 13% for the local share. Per the terms of the project agreement, at the conclusion of the CFAP project and all related obligations, the disbursement of remaining funds is as follows: Investment earnings attributable to the School District's local share of the project funds will be transferred to the School District's Facilities Maintenance Fund for maintenance of the CFAP facilities; investment earnings attributable to the state share of the project funds will be paid to the OSFC; the remaining balance in the project fund will be paid to the School District and the OSFC in proportion to their respective contributions to the project. Of the remaining balance of the project funds at June 30, 2006, the School District anticipates the payment of \$1,037,377 to the OSFC, as calculated below:

Ohio School Facilities Project Liability	
Equity in Pooled Cash and Cash Equivalents	
balance at June 30, 2006	\$1,551,649
Less: Reserved for Encumbrances	<u>(53,115)</u>
Remaining Funds for Disbursement:	1,498,534
Local Share Interest	(316,138)
State Share Interest	<u>(66,868)</u>
Remaining Project Balance:	<u>\$1,115,528</u>
Local Share - Project Balance (13%)	\$145,019
State Share - Project Balance (87%)	970,509
Plus: State Share Interest	<u>66,868</u>
OSFC Intergovernmental Payable	<u>\$1,037,377</u>

**NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE**

In prior years, the School District has entered into capitalized leases for copying equipment. 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

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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 \$116,986. Principal payments in fiscal year 2006 totaled \$35,064 in the governmental funds.

Future minimum lease payments through 2010 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$36,727	\$13,289	\$50,016
2008	40,775	9,241	50,016
2009	45,269	4,748	50,017
2010	20,303	535	20,838
Total	<u>\$143,074</u>	<u>\$27,813</u>	<u>\$170,887</u>

**NOTE 16 - LONG - TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due In One Year
<b><i>2002 School Facilities Construction, Improvement, and Refunding Bonds</i></b>					
Serial/Term Bonds, \$3,720,000 @ 3.5%-5.5%	\$3,565,000	\$0	\$245,000	\$3,320,000	\$245,000
Total School Facilities and Refunding Bonds	<u>3,565,000</u>	<u>0</u>	<u>245,000</u>	<u>3,320,000</u>	<u>245,000</u>
<b><i>2004 School Facilities and Improvement Bonds</i></b>					
Serial/Term Bonds, \$1,730,405 @ 2.0%-5.25%	1,655,000	0	80,000	1,575,000	80,000
Premium, \$69,369	63,227	0	4,336	58,891	0
Total School Facilities and Improvement Bonds	<u>1,718,227</u>	<u>0</u>	<u>84,336</u>	<u>1,633,891</u>	<u>80,000</u>
Total General Obligation Bonds	<u>5,283,227</u>	<u>0</u>	<u>329,336</u>	<u>4,953,891</u>	<u>325,000</u>
Capital Leases	178,138	0	35,064	143,074	36,727
Compensated Absences	481,830	56,545	29,011	509,364	29,011
Total General Long-Term Obligations	<u>\$5,943,195</u>	<u>\$56,545</u>	<u>\$393,411</u>	<u>\$5,606,329</u>	<u>\$390,738</u>

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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Capital leases will be paid from the general fund. Compensated absences will be paid from the general and food service funds.

*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, 2006 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	100,000	106,792	206,792
2012-2016	535,000	479,229	1,014,229
2017-2021	660,000	353,603	1,013,603
2022-2026	820,000	158,748	978,748
2027	<u>190,000</u>	<u>4,869</u>	<u>194,869</u>
Total	<u><u>\$3,320,000</u></u>	<u><u>\$1,609,195</u></u>	<u><u>\$4,929,195</u></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

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*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

issued for a 16 year period with a final maturity at December 1, 2019. The bonds were issued at a 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 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.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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Principal and interest requirements to retire the 2004 School Facilities and Improvement Bonds at June 30, 2006 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
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	95,000	51,420	146,420
2012-2016	560,000	206,075	766,075
2017-2020	570,000	59,688	629,688
Total	<u>\$1,575,000</u>	<u>\$545,240</u>	<u>\$2,120,240</u>

The School District's overall legal debt margin was \$3,861,082, with an unvoted debt margin of \$88,908 at June 30, 2006.

**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 2006, 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 2006, the total amount paid to OME-RESA from the School District was \$43,731. 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.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
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*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 fiscal year 2006 was \$447. 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 Plan (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.

*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-nine 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.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2006

**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, 2006.

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.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0
Current Year Set-aside Requirement	176,527	176,527
Current Year Offsets	0	(41,500)
Qualifying Disbursements	(144,835)	(142,070)
Qualifying Capital Disbursements from Bond Proceeds	<u>0</u>	<u>(659,556)</u>
Totals	<u>\$31,692</u>	<u>(\$666,599)</u>
Allowable Carry Forward for Fiscal Year 2006	\$0	(\$659,556)
Allowable Carry Forward at June 30, 2005	(396,863)	(2,730,964)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$365,171)</u>	<u>(\$3,390,520)</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$0</u>	<u>\$0</u>

The School District has qualifying disbursements from prior fiscal years that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. 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 extra amount for capital improvements may not be carried forward to future years. The School District also had current year and prior year capital expenditures from debt proceeds in connection with a school facilities project that may be carried forward to offset future set-aside requirements.

**East Guernsey Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

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**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, 2006.

**B. Litigation**

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

**EAST GUERNSEY LOCAL SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title</b>	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>						
Food Donation	N/A	10.550	\$0	\$14,293	\$0	\$14,293
Child Nutrition Cluster:						
School Breakfast Program	069682-05PU-2005	10.553	17,978		17,978	
School Breakfast Program	069682-05PU-2006	10.553	52,733		52,733	
Total School Breakfast Program			70,711	0	70,711	0
National School Lunch Program	069682-LLP1-2005	10.555	269		269	
National School Lunch Program	069682-LLP1-2006	10.555	2,238		2,238	
National School Lunch Program	069682-LLP4-2005	10.555	44,186		44,186	
National School Lunch Program	069682-LLP4-2006	10.555	145,025		145,025	
Total National School Lunch Program			191,718	0	191,718	0
Summer Food Service Program	069682-23PU-2005	10.559	7,521		7,521	
Summer Food Service Program	069682-24PU-2005	10.559	802		802	
Total Summer Food Service Program			8,323	0	8,323	0
Total Child Nutrition Cluster:			270,752	0	270,752	0
Team Nutrition Grant	069682-TWNT-2004	10.574	490		490	
Total U.S. Department of Agriculture			271,242	14,293	271,242	\$14,293
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	069682-C1S1-2005	84.010	57,315		60,133	
	069682-C1S1-2006	84.010	380,208		342,018	
Total Title I Grants to Local Educational Agencies			437,523	0	402,151	0
Special Education Grants to States (Title VI-B)	069682-6BSF-2005	84.027	15,345		15,345	
	069682-6BSF-2006	84.027	302,842		273,181	
Total Special Education Grants to States			318,187	0	288,526	0
Safe and Drug Free Schools Grants (Title IV)	069682-DRS1-2005	84.186	1,500		651	
	069682-DRS1-2006	84.186	10,164		10,164	
Total Safe and Drug Free Schools Grants			11,664	0	10,815	0
Innovative Education Program Strategies Grant (Title VI)	069682-C2S1-2006	84.298	3,425		3,425	
Education Technology State Grants (Title II-D)	069682-TJS1-2005	84.318	2,221		2,092	
	069682-TJS1-2006	84.318	7,055		7,055	
Total Education Technology State Grants			9,276	0	9,147	0
Improving Teacher Quality State Grants (Title II-A)	069682-TRS1-2005	84.367	10,985		10,997	
	069682-TRS1-2006	84.367	67,525		65,484	
Total Improving Teacher Quality State Grants			78,510	0	76,481	0
Total U.S. Department of Education			858,585	0	790,545	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$1,129,827</b>	<b>\$14,293</b>	<b>\$1,061,787</b>	<b>\$14,293</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, 2006**

**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 – FOOD DONATION PROGRAM**

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.





# Mary Taylor, CPA

## Auditor of State

### 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 East Guernsey Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 2, 2007. 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.

#### **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 2, 2007, we reported other matters related to noncompliance we deemed immaterial.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 2, 2007



# Mary Taylor, CPA

## Auditor of State

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

East 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 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 its major federal program for the year ended June 30, 2006. 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 each 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 East Guernsey Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

#### 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.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 2, 2007

**EAST GUERNSEY SCHOOL DISTRICT  
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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>	Title I Grants to Local Educational Agencies, CFDA #84.010
<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, 2006  
(Continued)**

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None



Mary Taylor, CPA  
Auditor of State

**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 1, 2007**