



Dave Yost • Auditor of State

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	17
Statement of Fund Net Assets – Proprietary Fund	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	19
Statement of Cash Flows – Proprietary Fund.....	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	22
Notes to the Basic Financial Statements	23
Federal Awards Receipts and Expenditures Schedule.....	53
Notes to the Federal Awards Receipts and Expenditures Schedule	54
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133	57
Schedule of Findings - <i>OMB Circular A-133 Section .505</i>	59

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Guernsey Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Guernsey Local School District, Guernsey County, Ohio, as of June 30, 2010, 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 January 24, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by the 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. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 24, 2011

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

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, 2010. 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 financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2010 are as follows:

- In total, net assets increased \$617,806.
- General revenues accounted for \$10,228,477 in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,172,587 or 24 percent of total revenues of \$13,401,064.
- Total assets of governmental activities decreased \$23,983 primarily due to the annual depreciation expense which is offset by additions to capital assets, as well as an increase in property taxes receivable.
- The School District had \$12,783,258 in expenses related to governmental activities; only \$3,172,587 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$10,228,477 were adequate to provide for these programs.
- The School District has three major funds; the General, Debt Service, and Classroom Facilities Capital Projects Funds. The General Fund had \$9,160,116 in revenues and \$9,077,947 in expenditures. The General Fund balance, including transfers, increased \$44,465. The Debt Service Fund had \$576,666 in revenues and \$546,762 in expenditures. The Debt Service Fund balance increased \$29,904. The Classroom Facilities Capital Projects Fund had \$1,039,997 in revenues, (due to the reclassification of the School Facilities grant from an intergovernmental payable – see Note 14 for further details) and \$47,974 in expenditures. The Classroom Facilities Fund balance increased \$992,023.

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, 2010
Unaudited

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 2010?" 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, 2010
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 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$10,311,855	\$9,499,629	\$812,226
Capital Assets	22,322,469	23,158,678	(836,209)
Total Assets	32,634,324	32,658,307	(23,983)
Liabilities			
Long-Term Liabilities	4,366,903	4,756,007	(389,104)
Other Liabilities	3,893,770	4,146,455	(252,685)
Total Liabilities	8,260,673	8,902,462	(641,789)
Net Assets			
Invested in Capital Assets, Net of Debt	18,713,735	19,162,669	(448,934)
Restricted	3,443,530	2,348,618	1,094,912
Unrestricted	2,216,386	2,244,558	(28,172)
Total Net Assets	\$24,373,651	\$23,755,845	\$617,806

Total assets decreased \$23,983. A net decrease in capital assets of \$836,209 was primarily due to annual depreciation expense offset by the addition of construction in progress. The current and other assets decrease was due primarily to an increase in property taxes receivable of \$586,804, as well as a decrease in equity in cash with a fiscal agent for the District's self insurance fund.

Total liabilities decreased \$641,789. The decrease was due primarily to bond payments that reduced long term debt, as well as a decrease in intergovernmental payable due to the approval by the OSFC to use monies previously earmarked for return for use in a roofing project. See Note 14 for further details.

Table 2 (on the following page) shows the changes in net assets for the fiscal year 2010 compared to fiscal year 2009, as reflected on the Statement of Activities.

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

	Governmental Activities		
	2010	2009	Change
Revenues			
Program Revenues			
Charges for Services	\$1,243,137	\$1,206,259	\$36,878
Operating Grants and Contributions	1,929,450	1,567,237	362,213
Capital Grants and Contributions	0	29,743	(29,743)
Total Program Revenues	3,172,587	2,803,239	369,348
General Revenues			
Property Taxes	2,457,781	2,553,583	(95,802)
Grants and Entitlements not Restricted to Specific Programs	6,599,422	6,460,132	139,290
Grants from School Facilities for Capital Construction	1,038,863	0	1,038,863
Gifts and Donations not Restricted to Specific Programs	36,079	32,953	3,126
Investment Earnings	39,564	90,093	(50,529)
Miscellaneous	56,768	40,614	16,154
Total General Revenues	10,228,477	9,177,375	1,051,102
Total Revenues	13,401,064	11,980,614	1,420,450
Program Expenses			
Instruction			
Regular	5,300,599	5,156,011	144,588
Special	1,238,990	1,075,255	163,735
Vocational	284,775	284,161	614
Adult/Continuing	6,637	6,250	387
Student Intervention Services	174,179	235,389	(61,210)
Support Services			
Pupil	683,832	585,866	97,966
Instructional Staff	586,650	516,060	70,590
Board of Education	30,701	29,582	1,119
Administration	886,358	1,016,656	(130,298)
Fiscal	355,827	335,063	20,764
Operation and Maintenance of Plant	1,219,586	1,191,706	27,880
Pupil Transportation	1,052,084	661,250	390,834
Central	38,629	37,569	1,060
Operation of Non-Instructional Services	4,181	0	4,181
Food Service Operations	502,703	467,151	35,552
Extracurricular Activities	240,440	418,596	(178,156)
Interest and Fiscal Charges	177,087	188,563	(11,476)
Total Expenses	12,783,258	12,205,128	578,130
Increase (Decrease) in Net Assets	617,806	(224,514)	842,320
Net Assets Beginning of Year	23,755,845	23,980,359	(224,514)
Net Assets End of Year	\$24,373,651	\$23,755,845	\$617,806

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

In 2010, 18 percent of the School District's revenues were from property taxes and 49 percent were from unrestricted grants and entitlements. Property tax revenues decreased slightly over the prior year primarily due to a delay in collections. Grants and entitlements revenues increased due to federal stimulus funding grants, and the reclassification of the School Facilities Grant from an intergovernmental payable. Interest revenues decreased 56 percent due to drastically declining interest rates and declining cash balances. See Note 14 for further details.

Program revenues accounted for 24 percent of the District's revenues in fiscal year 2010. These revenues consist of tuition and fees (including open enrollment and pay to participate fees), charges for providing lunches to students, grants for specified purposes, and contributions and donations.

Instructional programs comprise 55 percent of total governmental program expenses. Of the instructional expenses, 76 percent is for regular instruction, 20 percent for special instruction and student intervention services, and 4 percent for vocational and adult/continuing instruction. The total cost of instructional expenses increased by four percent from 2009 to 2010 as a result of increased wage schedules and additional staff provided by federal stimulus funding.

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

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction				
Regular	\$5,300,599	\$5,156,011	\$3,842,996	\$4,196,504
Special	1,238,990	1,075,255	759,896	269,820
Vocational	284,775	284,161	221,358	221,226
Adult/Continuing	6,637	6,250	6,637	6,250
Student Intervention Services	174,179	235,389	143,383	168,214
Support Services				
Pupil	683,832	585,866	570,013	575,532
Instructional Staff	586,650	516,060	319,094	361,947
Board of Education	30,701	29,582	30,271	29,582
Administration	886,358	1,016,656	780,359	939,276
Fiscal	355,827	335,063	355,827	335,063
Operation and Maintenance of Plant	1,219,586	1,191,706	1,163,068	1,190,481
Pupil Transportation	1,052,084	661,250	1,047,931	630,888
Central	38,629	37,569	29,206	21,894
Operation of Non-Instructional Services	4,181	0	307	0
Food Service Operations	502,703	467,151	91,170	35,931
Extracurricular Activities	240,440	418,596	72,068	230,718
Interest and Fiscal Charges	177,087	188,563	177,087	188,563
Total Expenses	\$12,783,258	\$12,205,128	\$9,610,671	\$9,401,889

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 71 percent of instruction costs and 89 percent of support services costs are supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,965,753 and expenditures of \$11,960,662. The School District's revenues exceeded expenditures during the fiscal year. In 2009 the general fund had an excess of expenditures over revenues of (\$292,128). In 2010 the general fund had an excess of revenues over expenditures of \$82,169. This represents an increase of \$374,297, and is due in part to a larger than usual carryover encumbrances amount as of June 30, 2010.

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 2010 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. Actual result of operations differed from final budgeted amounts due to revenues for open enrollment exceeding estimates. Costs for instructional and pupil support expenditures were less than budgeted in the general fund because some of those costs were paid by federal fiscal stabilization funds.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010 the School District had \$22,322,469 invested in land, construction in progress, land improvements, buildings and improvements, furniture, equipment and vehicles. Table 4 (on the following page) shows fiscal year 2010 balances compared to fiscal year 2009 capital assets.

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

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

	Governmental Activities	
	2010	2009
Land	\$161,329	\$161,329
Construction in Progress	47,974	0
Land Improvements	1,890,991	1,950,180
Buildings and Improvements	19,616,191	20,275,874
Furniture and Equipment	273,939	348,933
Vehicles	332,045	422,362
Totals	\$22,322,469	\$23,158,678

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 capital assets decreased \$836,209 in fiscal year 2010, primarily as a result of annual depreciation expense. A construction in progress asset is booked for payments on a construction project not completed as of June 30, 2010.

Debt

At June 30, 2010, the School District had \$3,689,390 in general obligation bonds and capital leases outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2010	2009
2002 School Facilities & Refunding Bonds <i>BTES/BTMS Construction and BTHS Renovations/Additions</i>	\$2,305,000	\$2,570,000
2004 School Facilities Bonds <i>Activity Complex (including premium)</i>	1,266,547	1,365,883
Capital Leases	117,843	149,199
Totals	\$3,689,390	\$4,085,082

See Note 16 for more information regarding debt. Outstanding bond debt was reduced by nine percent in fiscal year 2010 as a result of scheduled debt payments.

Economic Factors

The East Guernsey Local School District has achieved and maintained Effective School status as awarded by the Ohio Department of Education for the past nine school years. The District is committed to maintain that status as it faces the challenge of fiscal solvency. The Board of Education acknowledges that the School District is deficit spending. All projected years of the District's Board approved five year forecast

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

reflect more expenditures than revenues. The Board will monitor actual operating results to make every attempt to avoid or minimize future deficit spending. To address this issue, the Board placed a five year emergency operating levy on the November 2010 ballot. The levy was not successful. The Board recognizes that district staffing levels may result in the need for expenditure reductions to avoid anticipated deficits, or may delay the implementation of certain aspects of the five year forecast plan. Future financial planning for the district will involve the Board, members of the public, district administration and employees. 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 Gaye.Lodge@omeresa.net.

East Guernsey Local School District
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,394,603
Accounts Receivable	3,546
Intergovernmental Receivable	117,529
Prepaid Items	147,063
Materials and Supplies Inventory	45,188
Cash and Cash Equivalents with Fiscal Agent	654,551
Property Taxes Receivable	3,910,266
Deferred Charges	39,109
Non-Depreciable Capital Assets	209,303
Depreciable Capital Assets, Net	<u>22,113,166</u>
<i>Total Assets</i>	<u>32,634,324</u>
Liabilities	
Accounts Payable	94,045
Accrued Wages and Benefits Payable	773,135
Accrued Interest Payable	13,433
Accrued Vacation Benefits Payable	34,026
Matured Severance Payable	38,045
Claims Payable	211,109
Intergovernmental Payable	286,963
Deferred Revenue	2,443,014
Long-Term Liabilities:	
Due Within One Year	274,341
Due In More Than One Year	<u>4,092,562</u>
<i>Total Liabilities</i>	<u>8,260,673</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	18,713,735
Restricted for:	
Debt Service	1,570,444
Capital Projects	1,616,749
Classroom Facilities Maintenance	180,515
Federal Programs	14,402
Other Purposes	61,420
Unrestricted	<u>2,216,386</u>
<i>Total Net Assets</i>	<u><u>\$24,373,651</u></u>

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$5,300,599	\$934,587	\$523,016	(\$3,842,996)
Special	1,238,990	0	479,094	(759,896)
Vocational	284,775	0	63,417	(221,358)
Adult/Continuing	6,637	0	0	(6,637)
Student Intervention Services	174,179	0	30,796	(143,383)
Support Services:				
Pupil	683,832	0	113,819	(570,013)
Instructional Staff	586,650	0	267,556	(319,094)
Board of Education	30,701	0	430	(30,271)
Administration	886,358	0	105,999	(780,359)
Fiscal	355,827	0	0	(355,827)
Operation and Maintenance of Plant	1,219,586	1,655	54,863	(1,163,068)
Pupil Transportation	1,052,084	0	4,153	(1,047,931)
Central	38,629	0	9,423	(29,206)
Operation of Non-Instructional Services	4,181	0	3,874	(307)
Food Service Operations	502,703	138,523	273,010	(91,170)
Extracurricular Activities	240,440	168,372	0	(72,068)
Interest and Fiscal Charges	177,087	0	0	(177,087)
<i>Total Governmental Activities</i>	<u>\$12,783,258</u>	<u>\$1,243,137</u>	<u>\$1,929,450</u>	<u>(9,610,671)</u>
 General Revenues				
Property Taxes Levied for General Purposes				1,862,263
Property Taxes Levied for Debt Service				559,764
Property Taxes Levied for Classroom Facilities Maintenance				35,754
Grants and Entitlements not Restricted to Specific Programs				6,599,422
Grants from School Facilities Commission for Capital Construction				1,038,863
Gifts and Contributions not Restricted to Specific Programs				36,079
Investment Earnings				39,564
Miscellaneous				56,768
<i>Total General Revenues</i>				<u>10,228,477</u>
Change in Net Assets				617,806
<i>Net Assets Beginning of Year</i>				<u>23,755,845</u>
<i>Net Assets End of Year</i>				<u>\$24,373,651</u>

See accompanying notes to the basic financial statements

East Guernsey Local School District
Balance Sheet
Governmental Funds
June 30, 2010

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,061,229	\$1,302,150	\$1,616,749	\$414,475	\$5,394,603
Receivables:					
Property Taxes	2,897,126	958,158	0	54,982	3,910,266
Accounts	3,546	0	0	0	3,546
Intergovernmental	25,830	0	0	91,699	117,529
Interfund	25,222	0	0	0	25,222
Prepaid Items	117,303	0	0	29,760	147,063
Materials and Supplies Inventory	39,051	0	0	6,137	45,188
<i>Total Assets</i>	<u>\$5,169,307</u>	<u>\$2,260,308</u>	<u>\$1,616,749</u>	<u>\$597,053</u>	<u>\$9,643,417</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$71,257	\$0	\$0	\$22,788	\$94,045
Accrued Wages and Benefits	653,952	0	0	119,183	773,135
Interfund Payable	0	0	0	25,222	25,222
Intergovernmental Payable	241,787	0	0	45,176	286,963
Matured Compensated Absences Payable	38,045	0	0	0	38,045
Deferred Revenue	2,736,095	907,434	0	52,136	3,695,665
<i>Total Liabilities</i>	<u>3,741,136</u>	<u>907,434</u>	<u>0</u>	<u>264,505</u>	<u>4,913,075</u>
Fund Balances					
Reserved for Encumbrances	468,475	0	1,203,472	85,496	1,757,443
Reserved for Property Taxes	161,031	50,724	0	2,846	214,601
Unreserved, Undesignated, Reported in:					
General Fund	798,665	0	0	0	798,665
Special Revenue Funds	0	0	0	134,401	134,401
Debt Service Fund	0	1,302,150	0	0	1,302,150
Capital Projects Funds	0	0	413,277	109,805	523,082
<i>Total Fund Balances</i>	<u>1,428,171</u>	<u>1,352,874</u>	<u>1,616,749</u>	<u>332,548</u>	<u>4,730,342</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,169,307</u>	<u>\$2,260,308</u>	<u>\$1,616,749</u>	<u>\$597,053</u>	<u>\$9,643,417</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, 2010*

Total Governmental Fund Balances \$4,730,342

*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. 22,322,469

Other long-term assets are not available to pay for current period
expenditures and therefore are not reported in the funds.
Property Taxes 1,252,651

Unamortized issuance costs represent deferred charges which
do not provide current financial resources and, therefore, are
not reported in the funds. 39,109

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. 443,442

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

General Obligation Bonds	3,530,000
Bond Premium	41,547
Compensated Absences	677,513
Vacation Benefits Payable	34,026
Capital Leases	117,843
Accrued Interest Payable	13,433
	3,913,162

Total (4,414,362)

Net Assets of Governmental Activities \$24,373,651

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, 2010

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,545,334	\$475,844	\$0	\$27,620	\$2,048,798
Intergovernmental	6,519,919	100,822	1,038,063	1,904,939	9,563,743
Interest	9,187	0	1,934	2,115	13,236
Tuition and Fees	934,587	0	0	0	934,587
Extracurricular Activities	58,103	0	0	110,269	168,372
Rent	1,655	0	0	0	1,655
Contributions and Donations	36,079	0	0	3,992	40,071
Charges for Services	0	0	0	138,523	138,523
Miscellaneous	55,252	0	0	1,516	56,768
<i>Total Revenues</i>	<u>9,160,116</u>	<u>576,666</u>	<u>1,039,997</u>	<u>2,188,974</u>	<u>12,965,753</u>
Expenditures					
Current:					
Instruction:					
Regular	4,148,581	0	0	529,021	4,677,602
Special	597,607	0	0	503,720	1,101,327
Vocational	254,706	0	0	0	254,706
Adult/Continuing	6,637	0	0	0	6,637
Student Intervention Services	135,882	0	0	32,623	168,505
Support Services:					
Pupil	491,301	0	0	135,626	626,927
Instructional Staff	290,299	0	0	252,662	542,961
Board of Education	30,271	0	0	430	30,701
Administration	722,302	0	0	107,693	829,995
Fiscal	324,649	19,698	0	1,168	345,515
Operation and Maintenance of Plant	1,036,217	0	0	140,541	1,176,758
Pupil Transportation	909,038	0	0	4,482	913,520
Central	1,783	0	0	36,222	38,005
Operation of Non Instructional Services	0	0	0	4,181	4,181
Food Service Operations	0	0	0	453,001	453,001
Extracurricular Activities	86,062	0	0	86,609	172,671
Capital Outlay	0	0	47,974	0	47,974
Debt Service:					
Principal Retirement	31,356	360,000	0	0	391,356
Interest and Fiscal Charges	11,256	167,064	0	0	178,320
<i>Total Expenditures</i>	<u>9,077,947</u>	<u>546,762</u>	<u>47,974</u>	<u>2,287,979</u>	<u>11,960,662</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	82,169	29,904	992,023	(99,005)	1,005,091
Other Financing Sources (Uses)					
Transfers In	0	0	0	37,704	37,704
Transfers Out	(37,704)	0	0	0	(37,704)
Total Other Financing Sources (Uses)	<u>(37,704)</u>	<u>0</u>	<u>0</u>	<u>37,704</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	44,465	29,904	992,023	(61,301)	1,005,091
<i>Fund Balances Beginning of Year</i>	<u>1,383,706</u>	<u>1,322,970</u>	<u>624,726</u>	<u>393,849</u>	<u>3,725,251</u>
<i>Fund Balances End of Year</i>	<u>\$1,428,171</u>	<u>\$1,352,874</u>	<u>\$1,616,749</u>	<u>\$332,548</u>	<u>\$4,730,342</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, 2010*

Net Change in Fund Balances - Total Governmental Funds		\$1,005,091
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
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	47,974	
Depreciation	<u>(884,183)</u>	
Total		(836,209)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:		
Property Taxes		408,983
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	360,000	
Capital Leases	<u>31,356</u>	
Total		391,356
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	978	
Premium	<u>4,336</u>	
Total		5,314
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 do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Vacation Benefits Payable	3,414	
Compensated Absences Payable	<u>(6,588)</u>	
Total		(3,174)
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 (expenses) of the internal service fund is allocated among governmental activities.		
		<u>(349,474)</u>
<i>Changes in Net Assets of Governmental Activities</i>		<u><u>\$617,806</u></u>

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, 2010*

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,952,408	\$1,952,408	\$1,981,461	\$29,053
Intergovernmental	7,190,532	6,525,561	6,495,833	(29,728)
Interest	50,000	50,000	9,187	(40,813)
Tuition and Fees	853,393	846,139	935,452	89,313
Rent	1,000	1,000	1,655	655
Extracurricular Activities	52,500	52,500	55,604	3,104
Contributions and Donations	32,000	32,000	36,079	4,079
Miscellaneous	41,000	41,000	55,252	14,252
<i>Total Revenues</i>	<u>10,172,833</u>	<u>9,500,608</u>	<u>9,570,523</u>	<u>69,915</u>
Expenditures				
Current:				
Instruction:				
Regular	4,794,398	4,668,697	4,427,972	240,725
Special	596,938	726,938	632,546	94,392
Vocational	267,651	272,651	270,981	1,670
Adult/Continuing	6,361	7,361	6,637	724
Student Intervention Services	155,680	155,680	139,362	16,318
Support Services:				
Pupil	596,765	596,765	485,582	111,183
Instructional Staff	297,032	296,833	286,670	10,163
Board of Education	43,331	43,331	36,876	6,455
Administration	813,342	813,342	750,302	63,040
Fiscal	328,532	328,532	327,285	1,247
Operation and Maintenance of Plant	1,190,838	1,206,838	1,128,505	78,333
Pupil Transportation	1,094,645	1,094,645	1,067,715	26,930
Central	600	2,600	1,302	1,298
Extracurricular Activities	186,384	186,384	169,846	16,538
<i>Total Expenditures</i>	<u>10,372,497</u>	<u>10,400,597</u>	<u>9,731,581</u>	<u>669,016</u>
Excess of Revenues Under Expenditures	<u>(199,664)</u>	<u>(899,989)</u>	<u>(161,058)</u>	<u>738,931</u>
Other Financing Uses				
Transfers Out	0	(37,704)	(37,704)	0
Advances Out	0	0	(15,000)	(15,000)
Total Other Financing Uses	<u>0</u>	<u>(37,704)</u>	<u>(52,704)</u>	<u>(15,000)</u>
<i>Net Change in Fund Balance</i>	(199,664)	(937,693)	(213,762)	723,931
<i>Fund Balance at Beginning of Year</i>	1,428,565	1,428,565	1,428,565	0
Prior Year Encumbrances Appropriated	<u>316,910</u>	<u>316,910</u>	<u>316,910</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$1,545,811</u>	<u>\$807,782</u>	<u>\$1,531,713</u>	<u>\$723,931</u>

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2010

	<u>Governmental Activity Internal Service Fund</u>
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	\$654,551
Current Liabilities	
Claims Payable	<u>211,109</u>
Net Assets	
Unrestricted	<u><u>\$443,442</u></u>

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, 2010

	Governmental Activity
	Internal Service Fund
Operating Revenues	
Charges for Services	\$1,830,750
<i>Total Operating Revenues</i>	1,830,750
Operating Expenses	
Purchased Services	458,103
Claims	1,748,449
<i>Total Operating Expenses</i>	2,206,552
<i>Operating Loss</i>	(375,802)
Non-Operating Revenues	
Interest	26,328
<i>Change in Net Assets</i>	(349,474)
<i>Net Assets Beginning of Year</i>	792,916
<i>Net Assets End of Year</i>	\$443,442

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, 2010

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$1,830,750
Cash Payments for Goods and Services	(458,103)
Cash Payments for Claims	(1,614,612)
	(241,965)
<i>Net Cash Used In Operating Activities</i>	(241,965)
Cash Flows from Investing Activities	
Interest	26,328
	26,328
<i>Net Cash Provided by Investing Activities</i>	26,328
<i>Net Decrease in Cash and Cash Equivalents</i>	(215,637)
<i>Cash and Cash Equivalents Beginning of Year</i>	870,188
<i>Cash and Cash Equivalents End of Year</i>	\$654,551
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating Loss	(\$375,802)
Increase in Claims Payable	133,837
	(241,965)
<i>Net Cash Used In Operating Activities</i>	(\$241,965)
See accompanying notes to the basic financial statements	

East Guernsey Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	Private Purpose Trust Fund	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$7,648	\$34,335
Investments	44,207	0
	<u>51,855</u>	<u>34,335</u>
<i>Total Assets</i>	<u>51,855</u>	<u>34,335</u>
Liabilities		
Due to Students	0	\$34,335
	<u>0</u>	<u>34,335</u>
<i>Total Liabilities</i>	<u>0</u>	<u>34,335</u>
Net Assets		
Held in Trust for Scholarships	51,855	
	<u>51,855</u>	
<i>Total Net Assets</i>	<u>51,855</u>	

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2010

	Private Purpose Trust Fund
Additions	
Contributions and Donations	\$295
Interest	2,304
Total Additions	2,599
Deductions	
Scholarships Awarded	2,715
<i>Change in Net Assets</i>	(116)
<i>Net Assets Beginning of Year</i>	51,971
<i>Net Assets End of Year</i>	\$51,855

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, 2010

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 63 classified employees, 75 certified teaching employees, and 8 administrators, who provide services to approximately 1,232 students and other community members. The School District's facilities are comprised of the Buckeye Trail Elementary/Middle School and the Buckeye Trail High School at the district educational campus; the Baker Activity Complex athletic fields and track; and the Board of Education and district administrative office.

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 Mid East Career and Technology Center, the Educational Regional Service System Region 12 (ERSS), 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, the Ohio School Plan insurance purchasing pool, and the Ohio Mid-Eastern Regional Educational Service Agency Self Insurance Plan, a risk sharing, claims servicing and insurance purchasing pool. These organizations are presented in Notes 18 and 19 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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

A. Basis of Presentation

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

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

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 was 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. The following is the School District's only proprietary fund.

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements 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, sales, grants, student fees and reimbursements.

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, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

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

E. 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 2010, investments were limited to nonnegotiable certificates of deposit and State Treasury Asset Reserve of Ohio (STAROhio). Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market price or current share price.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for at June 30, 2010.

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 2010 amounted to \$9,187, which includes \$5,498, 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, 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.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

H. Inventory

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

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. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded as of the date received. The School District maintains a capitalization threshold of three thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

result in termination payments based upon an estimate of past experience of making termination payments for sick leave.

The sick leave benefit liability is reported on the government-wide financial statements. On the government fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured severance payable" in the fund from which the employee will be paid.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, 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. Bonds and loans are recognized as a liability on the governmental fund financial statements when due.

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

Transfers within governmental activities on the government-wide statements are reported in the same manner as general revenues.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 various local district managed activities and state grants restricted to expenditures for specified purposes. Of the total restricted net assets, none has resulted from enabling legislation.

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

Q. Operating Revenues and Expenses

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

R. Extraordinary and Special Items

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

S. Estimates

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 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 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 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any material change to the School District's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

benefit-responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 54 addresses the classification of governmental fund balance and clarifies the governmental fund type definitions. The implementation of this Statement resulted in two funds that were previously reported as special revenue funds being combined with the General Fund. The implementation of this Statement also resulted in the fund balance of governmental funds being assigned to the appropriate accounts as defined by the Statement which did not result in the restatement of total fund balance.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District's 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 Balance - 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).

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

Net Change in Fund Balance	
	General
GAAP Basis	\$44,465
Revenue Accruals	410,407
Advances Out	(15,000)
Expenditure Accruals	(113,902)
Encumbrances	(539,732)
Budget Basis	(\$213,762)

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
For the Fiscal Year Ended June 30, 2010

4. Bonds and other obligations of the State of Ohio;
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) above;
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, 2010, the School District's internal service fund had a balance of \$654,551 with OME-RESA, a public entity, risk sharing, claims servicing and insurance purchasing pool (See Note 19). 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, \$1,795,076 of the School District's bank balance of \$2,150,969 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, 2010, the School District had an investment in Star Ohio, which is part of the internal investment pool. The fair value of STAROhio was \$3,397,917, and the investment has an average maturity of 56 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
For the Fiscal Year Ended June 30, 2010

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. 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 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, 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 year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 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.

Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies.

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, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property and tangible personal property taxes which were measurable as of June 30, 2010 and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is 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.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The amount available as an advance at June 30, 2010 was \$161,031 in the general fund, \$50,724 in the debt service fund, and \$2,846 in the facilities maintenance special revenue fund. The amount available as an advance at June 30, 2009, was \$597,158 in the general fund, \$182,272 in the debt service fund, and \$10,970 in the facilities maintenance special revenue fund.

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

The assessed values upon which fiscal year 2010 taxes were collected were:

	2009 Second Half Collections		2010 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$99,539,180	93.64%	\$105,374,070	93.94%
Public Utility Personal	6,757,180	6.36%	6,799,770	6.06%
	\$106,296,360	100.00%	\$112,173,840	100.00%
Tax Rate per \$1,000 of assessed valuation		\$33.40		\$33.40

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010, 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 \$1,252,651 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:

	Amounts
Governmental Activities	
Federal Medicaid Reimbursement	\$25,830
Food Service Subsidy	38,710
IDEA Part B	26,957
Title I	18,189
Title II-A	5,522
Title II-D	588
Title VI-B Rural	1,733
Total	\$117,529

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 – INTERFUND ACTIVITY

A. Interfund Balances

Interfund balances for the year ended June 30, 2010 consisted of the following interfund receivables and payables:

<u>Interfund Payable</u>	Interfund Receivable <u>General Fund</u>
Other Governmental Funds	<u>\$25,222</u>

The deficit in the food service special revenue fund is due to cash advances, accrued liabilities, as well as a failure to adequately fund this program. The cash advance is reported as a payable to the General Fund. In order to alleviate the deficit, the School District has raised lunch prices, and taken steps to maximize the federal free and reduced lunch reimbursement.

B. Transfers

Interfund transfers for the year ended June 30, 2010 consisted of the following:

<u>Transfer from</u>	Transfer to <u>Other Governmental Funds</u>
General Fund	<u>\$37,704</u>

The above mentioned Transfer From/To was 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, 2010

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance 6/30/09	Additions	Deletions	Balance 6/30/10
Nondepreciable Capital Assets:				
Land	\$161,329	\$0	\$0	\$161,329
Construction in Progress	0	47,974	0	47,974
Total Nondepreciable Capital Assets	161,329	47,974	0	209,303
Depreciable Capital Assets:				
Land Improvements	2,346,409	0	0	2,346,409
Buildings and Improvements	25,572,478	0	0	25,572,478
Furniture and Equipment	794,519	0	0	794,519
Vehicles	1,579,081	0	0	1,579,081
Total Depreciable Capital Assets	30,292,487	0	0	30,292,487
Accumulated Depreciation:				
Land Improvements	(396,229)	(59,189)	0	(455,418)
Buildings and Improvements	(5,296,604)	(659,683)	0	(5,956,287)
Furniture and Equipment	(445,586)	(74,994)	0	(520,580)
Vehicles	(1,156,719)	(90,317)	0	(1,247,036)
Total Accumulated Depreciation	(7,295,138)	(884,183)	0	(8,179,321)
Total Depreciable Capital Assets, Net	22,997,349	(884,183)	0	22,113,166
Governmental Capital Assets, Net	\$23,158,678	(\$836,209)	\$0	\$22,322,469

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$479,710
Special	96,762
Vocational	23,439
Support Services:	
Pupil	45,228
Instructional Staff	23,803
Administration	26,845
Fiscal	2,391
Operation and Maintenance of Plant	10,123
Pupil Transportation	92,515
Food Service Operations	17,686
Extracurricular Activities	65,681
Total Depreciation Expense	\$884,183

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 2010, the School District contracted with the Ohio School Plan for property insurance and boiler and machinery coverage. The policies include a \$1,000 deductible for property losses and crimes. Professional and general liability is also protected by the Ohio School Plan with a \$2,000,000 single occurrence limit and a \$5,000,000 general aggregate limit, and no deductible. Violence coverage is provided by the Ohio School Plan with an aggregate limit of \$500,000. Vehicles are covered by the Ohio School Plan Educational Automobile Insurance plan, with a \$1,000 deductible for comprehensive and collision for school buses, and a \$250 deductible for comprehensive and a \$500 deductible for collision for non-bus vehicles. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group rating Program (the Plan), an insurance purchasing pool (Note 19). 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 is 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 CompManagement Inc 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. A third party administrator, Self Funded Plans, Inc., reviews and pays the claims. For fiscal year 2010, the School District paid monthly premiums of \$1,294.62 for family coverage (full rate was \$1,424.85) and \$539.05 for individual coverage (full rate was \$593.30). Monthly premiums for dental coverage were \$64.77 for family and \$25.80 for single coverage, paid in full by the Board of Education. Premiums are charged to the same funds that pay the employees' salaries.

The claims liability of \$211,109 reported in the internal service fund at June 30, 2010 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.

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>
2009	\$112,542	\$1,234,749	\$1,270,019	\$77,272
2010	77,272	1,748,449	1,614,612	211,109

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.74 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 by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for members and employer contributions. The School District's required contributions for pension obligations to SERS for fiscal years ended June 30, 2010, 2009 and 2008 were \$225,094, \$128,506, and \$136,645 respectively; 44.04 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888)227-7877 or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, 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 2009, 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 STRS Ohio for fiscal years 2010, 2009, and 2008 were \$587,717, \$587,972, and \$569,270 respectively; 80.54 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$4,806 made by the School District and \$3,433 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 School Employees Retirement System. As of June 30, 2010, three members of the Board of Education have elected social security. The contribution rate is 6.2 percent of wages.

NOTE 12 – POST EMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report, which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.5 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010 this amount was \$35,800. The surcharge paid by the School District in fiscal year 2010 was \$28,099.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$8,834, \$58,810, and \$62,355 respectively; 44.04 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$13,428, \$10,603, and \$9,846 respectively; 44.04 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio, which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$43,424, \$43,806, and \$44,383 respectively; 80.54 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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. Employees who work 260 days 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. Employees 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 250 days for all employees. Upon retirement, payment is made for one-fourth of accrued and unused sick leave credit, (or otherwise if individually contracted) 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 Metropolitan Life Insurance Company in the amount of \$20,000 per employee, with administrative personnel being provided \$50,000 of coverage. Supplemental life

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

insurance coverage of \$20,000 for certified employees and \$30,000 for classified employees is purchased by some employees via payroll deduction at a cost of \$0.17 per \$1,000 per month. Vision insurance through Vision Service Plan (VSP) is available to employees enrolling in a mandatory steerage preferred provider organization plan. Those premiums were \$21.16 per month for family coverage, \$9.46 per month for single coverage and are paid in full by the Board of Education.

NOTE 14 – OHIO SCHOOL FACILITIES PROJECT

In prior years, 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 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 cost, and the School District provided 13% for the local share. The construction was completed in December 2004, and demolition was completed in November 2005. When the project was closed in January 2007, unused project funds and interest earnings totaled \$1,545,537, with the OSFC authorizing repayment of \$1,038,863 for the unused state share of the original project. The School District had been reporting a liability for the amount due to be repaid since that time. In 2010, a defect in the roof material required the School District to re-roof both buildings. The OSFC authorized use of remaining project funds for the total estimated cost of \$1,251,446 to replace the roof. Project contracts are listed in Note 17. Per the terms of the OSFC 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 District's Facilities Maintenance Fund for maintenance of the CFAP facilities; investment earnings, if any remain, 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. The amounts, if any, are not estimable at June 30, 2010.

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current and prior fiscal years, the School District has entered into capitalized leases for copying equipment. The lease for copying equipment that was approved in prior fiscal years included an amount for the early retirement of the existing capital lease, and the existing equipment was taken on trade as part of the terms of the new lease agreement. Therefore, capitalized copying equipment is less than the amount of the outstanding capital lease liability. 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 the government wide financial statements in the amount of \$122,358, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability, net of the difference between the book value of the traded assets and the amount received for retirement of the existing lease, was recorded in the government wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$73,412. Principal payments in fiscal year 2010 totaled \$31,356 in the governmental funds.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Future minimum lease payments through 2014 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$34,127	\$8,485	\$42,612
2012	37,144	5,468	42,612
2013	40,427	2,185	42,612
2014	6,145	1,266	7,411
Total	<u>\$117,843</u>	<u>\$17,404</u>	<u>\$135,247</u>

NOTE 16 - LONG - TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	Principal Outstanding 6/30/09	Additions	Deductions	Principal Outstanding 6/30/10	Amounts Due In One Year
<i>2002 School Facilities Construction, Improvement, and Refunding Bonds</i>					
Serial/Term Bonds, \$3,720,000 @ 3.5%-5.5%	\$2,570,000	\$0	\$265,000	\$2,305,000	\$100,000
Total School Facilities and Refunding Bonds	<u>2,570,000</u>	<u>0</u>	<u>265,000</u>	<u>2,305,000</u>	<u>100,000</u>
<i>2004 School Facilities and Improvement Bonds</i>					
Serial/Term Bonds, \$1,730,405 @ 2.25%-5.25%	1,320,000	0	95,000	1,225,000	95,000
Premium, \$69,369	45,883	0	4,336	41,547	0
Total School Facilities and Improvement Bonds	<u>1,365,883</u>	<u>0</u>	<u>99,336</u>	<u>1,266,547</u>	<u>95,000</u>
Total General Obligation Bonds	<u>3,935,883</u>	<u>0</u>	<u>364,336</u>	<u>3,571,547</u>	<u>195,000</u>
Capital Leases	149,199	0	31,356	117,843	34,127
Compensated Absences	670,925	51,802	45,214	677,513	45,214
Total General Long-Term Obligations	<u>\$4,756,007</u>	<u>\$51,802</u>	<u>\$440,906</u>	<u>\$4,366,903</u>	<u>\$274,341</u>

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$100,000	\$106,792	\$206,792
2012	100,000	103,442	203,442
2013	105,000	99,904	204,904
2014	110,000	96,086	206,086
2015	110,000	92,016	202,016
2016-2020	630,000	384,628	1,014,628
2021-2025	780,000	201,154	981,154
2026-2027	<u>370,000</u>	<u>19,219</u>	<u>389,219</u>
Total	<u><u>\$2,305,000</u></u>	<u><u>\$1,103,241</u></u>	<u><u>\$3,408,241</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 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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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	130,000
	<u>\$255,000</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
For the Fiscal Year Ended June 30, 2010

Principal and interest requirements to retire the 2004 School Facilities and Improvement Bonds at June 30, 2010 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$95,000	\$51,420	\$146,420
2012	100,000	48,590	148,590
2013	105,000	45,384	150,384
2014	110,000	41,807	151,807
2015	120,000	37,837	157,837
2016-2020	<u>695,000</u>	<u>92,145</u>	<u>787,145</u>
Total	<u>\$1,225,000</u>	<u>\$317,183</u>	<u>\$1,542,183</u>

The School District's overall legal debt margin was \$7,866,700, with an unvoted debt margin of \$111,598 at June 30, 2010.

NOTE 17 – CONTRACTUAL COMMITMENTS

As of June 30, 2010, the School District had the following contractual purchase commitments for the roof replacement project discussed in Note 14:

Contractor/Project	Fund	Purchase Commitment	Amounts Paid as of 6/30/10	Amounts Remaining on Contracts
Kalkrueth Roofing & Sheet Metal	Classroom Facilities	\$1,114,593	\$0	\$1,114,593
Mays Consulting & Evaluation Services	Classroom Facilities	127,425	38,546	88,879
Other Miscellaneous Costs	Classroom Facilities	<u>9,428</u>	<u>9,428</u>	<u>0</u>
Totals		<u>\$1,251,446</u>	<u>\$47,974</u>	<u>\$1,203,472</u>

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Mid East Career and Technology Center - The Mid East Career and Technology Center (MECTC) 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 twelve participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2010, the School District made no contributions to the MECTC. To obtain financial information write to the Mid East Career and Technology Center, Treasurer, at 400 Richards 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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

authority. OME-RESA provides financial accounting services, educational management information, internet access, and cooperative purchasing services to member districts. The School District participates in the natural gas sales service program. This program allows schools to purchase natural gas at reduced rates. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made. During fiscal year 2010, the total amount paid to OME-RESA from the School District for services provided was \$41,776. 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. Effective July 1, 2010, the information technology portion of the OME-RESA consortium was dissolved. See Subsequent Event Note 22 for further details.

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 187 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 2010 was \$440. Financial information may be obtained from the Metropolitan Educational Council, at 6100 Channingway Blvd., Suite 604, Columbus, Ohio 43232.

Educational Regional Service System Region 12 - The School District participates in the Educational Regional Service System Region 12 (ERSS), a jointly governed organization consisting of educational entities within Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble and Tuscarawas counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region’s largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. Financial information can be obtained from the Muskingum Valley Educational Service Center, 205 N. Seventh Street, Zanesville, Ohio 43701.

NOTE 19 - PUBLIC ENTITY POOLS

A. Insurance Purchasing Pools

Ohio School Boards Association Workers’ Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP’s business and affairs are conducted by a three member Board of Directors consisting of the President, President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 is 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. Risk Sharing, Claims Servicing and Insurance Purchasing Pool

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan - The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a risk-sharing, claims servicing, and insurance purchasing pool comprised of eighty-four members, including two insurance consortiums. Each participant appoints a member of the insurance plan's assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance and vision insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit, which can range from \$35,000 to \$100,000 under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$400,000, and all claims between the deductible and the \$400,000 are paid from the internal shared risk pool. The internal pool is not owned by the plan participants. All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$400,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administrative fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by Met Life, and allows for the purchase of vision insurance through Vision Service Plan.

NOTE 20 - 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.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Pursuant to State statute, the Board of Education expended all of the amounts previously set-aside for the budget reserve.

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, 2009	\$0	\$0
Current Year Set-aside Requirement	195,917	195,917
Current Year Offsets	0	(78,642)
Qualifying Disbursements	<u>(82,667)</u>	<u>(125,479)</u>
Totals	<u>\$113,250</u>	<u>(\$8,204)</u>
Allowable Carry Forward at June 30, 2009	(174,574)	(3,455,842)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$61,324)</u>	<u>(\$3,455,842)</u>
Set-aside Reserve Balance as of June 30, 2010	<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 District also had 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.

NOTE 21 – 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, 2010.

B. Litigation

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 22 – SUBSEQUENT EVENTS

A. Council of Governments

Effective July 1, 2010, the information technology portion of the OME-RESA consortium has been dissolved. On July 1, 2010, the Ohio Mid-Eastern Regional Education Service Agency Information Technology Center Council of Governments (OMERESA Council) was established pursuant to Ohio Revised Code Section 167.01. The Board of Education of the East Guernsey Local School District has passed a resolution approving membership in the OMERESA Council and is currently receiving information technology services through the Council.

B. School Employees Retirement System

Effective July 1, 2010, the SERS has changed the Ohio Department of Education Foundation Program deductions for traditional public schools from a calendar year basis, six month in arrears, to a fiscal year basis, which will coincide with the participating School Districts' fiscal year. As a result, the Foundation deductions which would have been collected six months in arrears became due June 30, 2010. The School District will have the balance due paid in equal installments over a six year period beginning July, 2010.

C. Emergency Operating Levy

The East Guernsey Local Board of Education took action on July 19, 2010 to place a five year emergency operating levy on the ballot November 2, 2010. The purpose of the levy was to provide for the operating costs of the School District, and would have generated \$700,000 per year beginning January 2011 through December 2015. However, passage of the levy failed.

D. Federal Education Jobs Fund Program

The School District has been approved for an estimated \$376,745 of Federal Education Jobs Fund Program dollars as part of Public Law No. 111-226 signed by President Obama on August 10, 2010. This program provides assistance to save or create education jobs. The allocation will be available to fund fiscal year 2011 programs.

E. Refunding Bonds

At their November 15, 2010 meeting, the East Guernsey Local Board of Education took action to pursue a refunding of a portion of the 2002 School Facilities Construction and Improvement and Refunding Bonds. It is anticipated the new bond issue will result in a savings to taxpayers as a result of lower interest costs. As of the date of the financial statements, the refunding debt has not yet been issued.

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2009/2010	10.555	\$ 11,589	\$ 11,589
Cash Assistance:				
School Breakfast Program	2009/2010	10.553	47,718	47,718
National School Lunch Program	2009/2010	10.555	172,911	172,911
Summer Food Service Program	2009/2010	10.559	6,231	6,231
Cash Assistance Subtotal			<u>226,860</u>	<u>226,860</u>
Total Child Nutrition Cluster			<u>238,449</u>	<u>238,449</u>
Total U.S. Department of Agriculture			238,449	238,449
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	2009	84.010	28,644	55,176
	2010		449,519	422,489
Total Title I Grants to Local Educational Agencies Subtotal			<u>478,163</u>	<u>477,665</u>
ARRA - Title I, Grants to Local Educational Agencies, Recovery Act	2010	84.389	105,304	103,434
Total Title I, Part A Cluster			583,467	581,099
Special Education Cluster:				
Special Education - Grants to States	2009	84.027	23,075	41,500
	2010		253,589	227,696
Special Education - Grants to States Subtotal			<u>276,664</u>	<u>269,196</u>
ARRA - Special Education - Grants to States, Recovery Act	2010	84.391	199,718	191,307
Total Special Education Cluster			476,382	460,503
Safe and Drug-Free Schools and Communities - State Grants	2010	84.186	6,188	6,188
Education Technology State Grants	2009	84.318		634
	2010		3,596	4,184
Total Education Technology State Grants			<u>3,596</u>	<u>4,818</u>
Rural Education	2009	84.358		6,959
	2010		27,933	27,933
Total Rural Education			<u>27,933</u>	<u>34,892</u>
Improving Teacher Quality State Grants	2009	84.367		7,948
	2010		70,152	63,281
Total Improving Teacher Quality State Grants			<u>70,152</u>	<u>71,229</u>
ARRA - School Fiscal Stabilization Fund, Recovery Act	2010	84.394	408,185	408,185
Total U.S. Department of Education			1,575,903	1,566,914
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Guernsey County Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families - Social Worker Grant	n/a	93.558	4,692	4,692
Temporary Assistance for Needy Families - Afterschool Grant	n/a		2,015	2,446
Total Temporary Assistance for Needy Families Grants			<u>6,707</u>	<u>7,138</u>
Total U.S. Department of Health and Human Services			<u>6,707</u>	<u>7,138</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 1,821,059</u>	<u>\$ 1,812,501</u>

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

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • 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 the East Guernsey Local School District, Guernsey County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 24, 2011. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies, pass-through entities, and others within the School District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

January 24, 2011



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the East Guernsey Local School District, Guernsey County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2010. The Summary of Auditor's results section of the accompanying Schedule of Findings identifies the School District's major federal programs. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Dave Yost
Auditor of State

January 24, 2011

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I, Part A Cluster – CFDA #84.010 and #84.389 Special Education Cluster – CFDA #84.027 and #84.391 ARRA-School Fiscal Stabilization Fund, Recovery Act - CFDA #84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



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EAST GUERNSEY LOCAL SCHOOL DISTRICT

GUERNSEY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 8, 2011**