



**Auditor of State
Betty Montgomery**

**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	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	16
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	18
Statement of Fund Net Assets – Proprietary Fund	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.....	20
Statement of Cash Flows – Proprietary Fund	21
Statement of Fiduciary Net Assets – Fiduciary Funds	22
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	23
Notes to the Basic Financial Statements.....	25
Schedule of Federal Awards Receipts and Expenditures	57
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	58
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	59
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	61
Schedule of Findings - <i>OMB Circular A-133 Section .505</i>	63

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the 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, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 3, during the year ended June 30, 2004, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2005, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

April 4, 2005

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- In total, net assets increased \$10,111,076.
- General revenues accounted for \$18,440,373 in revenue or 87 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,645,515 or 13 percent of total revenues of \$21,085,888.
- Total assets of governmental activities increased \$13,174,196 primarily due to the increase in capital assets associated with the classroom facilities project as well as the activity complex project.
- The School District had \$10,974,812 in expenses related to governmental activities; only \$2,645,515 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$18,440,373 were adequate to provide for these programs.
- The School District has three major funds; the General, Debt Service, and Classroom Facilities Funds. The General Fund had \$8,116,762 in revenues and \$9,172,862 in expenditures. The General Fund's balance decreased \$1,089,942. The Debt Service Fund had \$457,981 in revenues and \$407,541 in expenditures. The Debt Service Fund's balance increased \$50,440. The Classroom Facilities Fund had \$10,763,376 in revenues and \$11,140,713 in expenditures. The Classroom Facilities Fund's balance decreased \$377,337.

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, 2004
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 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$16,362,682	\$15,029,216
Capital Assets	19,530,405	7,689,675
Total Assets	35,893,087	22,718,891
Liabilities		
Long-Term Liabilities	6,063,569	4,515,223
Other Liabilities	4,325,259	2,810,485
Total Liabilities	10,388,828	7,325,708
Net Assets		
Invested in Capital Assets, Net of Debt	18,137,102	6,489,423
Restricted	5,903,141	6,366,424
Unrestricted	1,464,016	2,537,336
Total Net Assets	\$25,504,259	\$15,393,183

Total assets increased \$13,174,196. The increase was primarily due to the increase in capital assets associated with the classroom facilities project as well as the activity complex project.

Total liabilities increased \$3,063,120. The primary cause for this increase was a result of the School District issuing the Activity Complex Bonds, as well as increased contracts and retainage payable associated with the classroom facilities and activity complex capital projects.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year East Guernsey Local School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities 2004
Revenues	
Program Revenues	
Charges for Services	\$943,433
Operating Grants and Contributions	1,563,247
Capital Grants and Contributions	138,835
Total Program Revenues	2,645,515
General Revenues	
Property Taxes	1,813,852
Grants and Entitlements - Classroom Facilities	10,704,125
Grants and Entitlements not Restricted to Specific Programs	5,709,366
Investments	99,942
Other	113,088
Total General Revenues	18,440,373
Total Revenues	21,085,888
Program Expenses	
Instruction	
Regular	4,686,091
Special	922,060
Vocational	301,989
Adult/Continuing	4,735
Support Services	
Pupil	637,042
Instructional Staff	404,106
Board of Education, Administration, and Fiscal	1,474,739
Operation and Maintenance of Plant	773,329
Pupil Transportation	834,878
Central	31,602
Operation of Non-Instructional Services	1,910
Food Service Operations	487,268
Extracurricular Activities	266,038
Interest and Fiscal Charges	149,025
Total Expenses	10,974,812
Increase in Net Assets	\$10,111,076

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

In 2004, 9 percent of the School District's revenues were from property taxes and 78 percent were from unrestricted grants and entitlements. The Classroom Facilities Project received \$10,704,125 in unrestricted grants and entitlements which comprises 65 percent of the unrestricted grant total that the School District received.

Program revenues accounted for 13 percent of the School District's revenues in fiscal year 2004. These revenues consist of tuition and fees, charges for providing lunches to students, transportation and vocational services provided to other school districts, grants for specified purposes, and contributions and donations.

Instructional programs comprise approximately 54 percent of total governmental program expenses. Of the instructional expenses, approximately 79 percent is for regular instruction, 16 percent for special instruction, 5 percent for vocational and adult/continuing instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3
Governmental Activities

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
Instruction		
Regular	\$4,686,091	\$3,869,580
Special	922,060	197,416
Vocational	301,989	260,010
Adult/Continuing	4,735	4,735
Support Services		
Pupil	637,042	477,459
Instructional Staff	404,106	312,392
Board of Education, Administration and Fiscal	1,474,739	1,395,509
Operation and Maintenance of Plant	773,329	765,809
Pupil Transportation	834,878	801,891
Central	31,602	7,189
Operation of Non-Instructional Services	1,910	1,910
Food Service Operations	487,268	25,164
Extracurricular Activities	266,038	61,208
Interest and Fiscal Charges	149,025	149,025
<i>Total Expenses</i>	<u><u>\$10,974,812</u></u>	<u><u>\$8,329,297</u></u>

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 73 percent of instruction costs and 90 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 \$21,073,142 and expenditures of \$23,138,778. As apparent, the School District's expenditures exceeded revenues during the fiscal year.

General Fund Budgeting Highlights

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

During the course of fiscal 2004 the School District amended its General Fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004 the School District had \$19,530,405 invested in land, construction in progress, land improvements, buildings and improvements, furniture, equipment and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

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

	Governmental Activities	
	2004	2003
Land	\$177,901	\$72,901
Construction in Progress	14,043,927	2,182,072
Land Improvements	201,851	213,973
Buildings and Improvements	4,422,604	4,568,323
Furniture and Equipment	193,523	208,227
Vehicles	490,599	444,179
Totals	\$19,530,405	\$7,689,675

See note 9 for more detailed information of the School District's capital assets.

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt

At June 30, 2004, the School District had \$5,645,619 in bonds and capital leases outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2004	2003
1992 School Improvement Bonds		
Capital Appreciation Bonds	\$47,784	\$100,217
Accretion of Interest	95,089	173,010
2002 School Facilities Refunding Bonds	3,660,000	3,720,000
2003 School Facilities Bonds		
Serial/Term Bonds	1,730,405	0
Premium	67,563	0
1994 Energy Conservation Notes	0	60,000
Capital Leases	44,778	65,485
Totals	\$5,645,619	\$4,118,712

See Note 16 for more information regarding debt.

Economic Factors

The East Guernsey Local School District has achieved Effective School status as awarded by the Ohio Department of Education for the past three school years. The School District is committed to maintaining that status as it faces the challenge of maintaining fiscal solvency. The Board of Education acknowledges that the East Guernsey Local School District is deficit spending - each year of the District's Board approved five year forecast reflects more expenditures than revenues, which is eroding prior carryover balances. Per the Board's most recent approved forecast, deficit cash balances are predicted beginning in FY06. Current Board authorized efforts to address this situation have begun and include delaying the purchase of school buses and textbooks, reductions in staff as the School District opens its new K-8 school building in 2005 and savings due to transportation changes at that same time.

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. A decrease in the basic aid annual funding level increase indicated in the 02/03 state biennium budget resulted in less revenue in the FY04 forecast than anticipated in FY03. Impacts of the next biennium budget will directly affect the financial status of the School District.

East Guernsey Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Contacting the School District's Financial Management

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

East Guernsey Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$12,681,855
Cash and Cash Equivalents with Fiscal Agent	421,410
Cash and Cash Equivalents with Escrow Agent	254,410
Accounts Receivable	1,047
Intergovernmental Receivable	67,623
Prepaid Items	137,759
Materials and Supplies Inventory	42,605
Property Taxes Receivable	2,692,378
Deferred Charges	63,595
Non-Depreciable Capital Assets	14,221,828
Depreciable Capital Assets, Net	5,308,577
<i>Total Assets</i>	35,893,087
Liabilities	
Accounts Payable	47,428
Accrued Wages and Benefits Payable	830,117
Intergovernmental Payable	289,884
Contracts Payable	1,062,107
Accrued Interest Payable	10,883
Vacation Benefits Payable	40,322
Matured Severance Payable	27,253
Claims Payable	95,382
Retainage Payable	254,410
Deferred Revenue	1,667,473
Long-Term Liabilities:	
Due Within One Year	362,240
Due In More Than One Year	5,701,329
<i>Total Liabilities</i>	10,388,828
Net Assets	
Invested in Capital Assets, Net of Related Debt	18,137,102
Restricted for:	
Capital Projects	4,913,084
Debt Service	803,479
Other Purposes	186,578
Unrestricted	1,464,016
<i>Total Net Assets</i>	\$25,504,259

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$4,686,091	\$194,512	\$596,149	\$25,850
Special	922,060	335,289	389,355	0
Vocational	301,989	41,979	0	0
Adult/Continuing	4,735	0	0	0
Support Services:				
Pupil	637,042	53,917	105,666	0
Instructional Staff	404,106	0	91,714	0
Board of Education	35,030	0	0	0
Administration	1,058,200	0	79,230	0
Fiscal	381,509	0	0	0
Operation and Maintenance of Plant	773,329	7,520	0	0
Pupil Transportation	834,878	0	7,002	25,985
Central	31,602	0	24,413	0
Operation of Non-Instructional Services	1,910	0	0	0
Food Service Operations	487,268	192,386	269,718	0
Extracurricular Activities	266,038	117,830	0	87,000
Interest and Fiscal Charges	149,025	0	0	0
<i>Total Governmental Activities</i>	<u>\$10,974,812</u>	<u>\$943,433</u>	<u>\$1,563,247</u>	<u>\$138,835</u>

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Building Maintenance
Property Taxes Levied for Debt Service
Grants and Entitlements - Classroom Facilities
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental
Activities

(\$3,869,580)
(197,416)
(260,010)
(4,735)

(477,459)
(312,392)
(35,030)
(978,970)
(381,509)
(765,809)
(801,891)
(7,189)
(1,910)
(25,164)
(61,208)
(149,025)

(8,329,297)

1,346,375
27,295
440,182
10,704,125
5,709,366
99,942
113,088

18,440,373

10,111,076

15,393,183

\$25,504,259

East Guernsey Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,781,424	\$660,478	\$8,347,887	\$1,892,066	\$12,681,855
Restricted Assets:					
Cash and Cash Equivalents w/ Escrow Agent	0	0	254,410	0	254,410
Receivables:					
Property Taxes	2,084,055	560,239	0	48,084	2,692,378
Accounts	737	0	0	310	1,047
Intergovernmental	21,307	0	0	46,316	67,623
Interfund	10,000	0	0	0	10,000
Prepaid Items	122,035	0	0	15,724	137,759
Materials and Supplies Inventory	28,324	0	0	14,281	42,605
<i>Total Assets</i>	<u>\$4,047,882</u>	<u>\$1,220,717</u>	<u>\$8,602,297</u>	<u>\$2,016,781</u>	<u>\$15,887,677</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$34,196	\$0	\$0	\$13,232	\$47,428
Accrued Wages and Benefits	715,931	0	0	114,186	830,117
Contracts Payable	0	0	828,900	233,207	1,062,107
Matured Severance Payable	27,253	0	0	0	27,253
Retainage Payable	0	0	254,410	0	254,410
Interfund Payable	0	0	0	10,000	10,000
Intergovernmental Payable	177,045	0	0	16,539	193,584
Deferred Revenue	1,832,755	483,074	0	42,823	2,358,652
<i>Total Liabilities</i>	<u>2,787,180</u>	<u>483,074</u>	<u>1,083,310</u>	<u>429,987</u>	<u>4,783,551</u>
Fund Balances					
Reserved for Encumbrances	290,683	0	5,036,071	1,132,035	6,458,789
Reserved for Property Taxes	251,300	77,165	0	5,261	333,726
Unreserved, Undesignated, Reported in:					
General Fund	718,719	0	0	0	718,719
Special Revenue Funds	0	0	0	114,821	114,821
Debt Service Fund	0	660,478	0	0	660,478
Capital Projects Funds	0	0	2,482,916	334,677	2,817,593
<i>Total Fund Balances</i>	<u>1,260,702</u>	<u>737,643</u>	<u>7,518,987</u>	<u>1,586,794</u>	<u>11,104,126</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,047,882</u>	<u>\$1,220,717</u>	<u>\$8,602,297</u>	<u>\$2,016,781</u>	<u>\$15,887,677</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, 2004*

Total Governmental Fund Balances \$11,104,126

*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. 19,530,405

Other long-term assets, including property taxes, are not available to
pay for current period expenditures and therefore are deferred in the funds: 691,179

Unamortized issuance costs represent deferred charges which
do not provide current financial resources and, therefore, are
not reported in the funds. 63,595

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 326,028

Intergovernmental payable includes contractually required pension
contributions not expected to be paid with available resources,
and therefore, are not reported in the funds. (96,300)

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

General Obligation Bonds	5,600,841
Compensated Absences	417,950
Vacation Benefits Payable	40,322
Capital Leases	44,778
Accrued Interest Payable	10,883

Total (6,114,774)

Net Assets of Governmental Activities \$25,504,259

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, 2004

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,371,246	\$403,778	\$	\$28,635	\$1,803,659
Intergovernmental	6,036,710	53,932	10,704,125	1,226,294	18,021,061
Interest	27,084	0	58,501	11,804	97,389
Tuition and Fees	571,780	0	0	0	571,780
Extracurricular Activities	0	0	0	171,747	171,747
Rent	7,520	0	0	0	7,520
Contributions and Donations	0	0	0	94,512	94,512
Charges for Services	0	0	0	192,386	192,386
Miscellaneous	102,422	271	750	9,645	113,088
<i>Total Revenues</i>	<u>8,116,762</u>	<u>457,981</u>	<u>10,763,376</u>	<u>1,735,023</u>	<u>21,073,142</u>
Expenditures					
Current:					
Instruction:					
Regular	4,302,899	0	0	274,530	4,577,429
Special	536,842	0	0	370,021	906,863
Vocational	292,084	0	0	0	292,084
Adult/Continuing	4,735	0	0	0	4,735
Support Services:					
Pupil	467,075	0	0	159,238	626,313
Instructional Staff	307,283	0	0	86,232	393,515
Board of Education	34,925	0	0	0	34,925
Administration	973,087	0	0	76,942	1,050,029
Fiscal	297,631	83,918	0	996	382,545
Operation and Maintenance of Plant	755,939	0	0	0	755,939
Pupil Transportation	864,913	0	0	7,698	872,611
Central	864	0	0	30,106	30,970
Operation of Non-Instructional Services	1,910	0	0	0	1,910
Food Service Operations	0	0	0	485,224	485,224
Extracurricular Activities	146,510	0	0	113,419	259,929
Capital Outlay	98,993	0	11,140,713	740,704	11,980,410
Debt Service:					
Principal Retirement	80,707	112,433	0	0	193,140
Interest and Fiscal Charges	6,465	113,622	0	7,257	127,344
Interest on Capital Appreciation Bonds	0	97,568	0	0	97,568
Issuance Costs	0	0	0	65,295	65,295
<i>Total Expenditures</i>	<u>9,172,862</u>	<u>407,541</u>	<u>11,140,713</u>	<u>2,417,662</u>	<u>23,138,778</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	(1,056,100)	50,440	(377,337)	(682,639)	(2,065,636)
Other Financing Sources (Uses)					
General Obligation Bonds Issued	0	0	0	1,730,405	1,730,405
Premium on General Obligation Bonds	0	0	0	69,369	69,369
Accrued Interest Received on Debt Issuance	0	0	0	3,183	3,183
Sale of Assets	905	0	0	0	905
Transfers In	0	0	0	34,747	34,747
Transfers Out	(34,747)	0	0	0	(34,747)
<i>Total Other Financing Sources (Uses)</i>	<u>(33,842)</u>	<u>0</u>	<u>0</u>	<u>1,837,704</u>	<u>1,803,862</u>
<i>Net Change in Fund Balances</i>	(1,089,942)	50,440	(377,337)	1,155,065	(261,774)
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>2,350,644</u>	<u>687,203</u>	<u>7,896,324</u>	<u>431,729</u>	<u>11,365,900</u>
<i>Fund Balances End of Year</i>	<u>\$1,260,702</u>	<u>\$737,643</u>	<u>\$7,518,987</u>	<u>\$1,586,794</u>	<u>\$11,104,126</u>

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, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$261,774)

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

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

Capital Outlay	12,100,917	
Depreciation	<u>(260,187)</u>	
Total		11,840,730

Revenues in the statement of activities, such as property taxes, that do not provide current financial resources are not reported as revenue in the funds: 10,193

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	172,433	
Accretion on Capital Appreciation Bonds	97,568	
Capital Leases	<u>20,707</u>	
Total		290,708

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities, and the accretion of interest of capital appreciation bonds is reported in the statement of activities.

Accrued Interest	(5,323)	
Accretion of Interest	<u>(19,647)</u>	
Total		(24,970)

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.

Issuance Costs	65,295	
Amortization of Issuance Costs	<u>(1,700)</u>	
Total		63,595

General obligation bonds issued and bond premiums are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets

General Obligation Bonds Issued	(1,730,405)	
Premium on Bonds Issued	(69,369)	
Amortization of Premium	<u>1,806</u>	
Total		(1,797,968)

Some expenses reported in the statement of activities, such as compensated absences, vacation benefits payable and intergovernmental payables, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Intergovernmental Payable	(7,689)	
Vacation Benefits Payable	(6,263)	
Compensated Absences Payable	<u>(21,439)</u>	
Total		<u>(35,391)</u>

The internal service fund used by management to charge the costs of insurance to individual funds is included in the statement of activities and not on the governmental fund statements. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue of the internal service fund is allocated among governmental activities. 25,953

Changes in Net Assets of Governmental Activities \$10,111,076

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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,485,725	\$1,485,725	\$1,640,756	\$155,031
Intergovernmental	6,167,795	5,948,208	6,060,555	112,347
Interest	56,500	29,500	27,084	(2,416)
Tuition and Fees	54,600	570,309	571,128	819
Rent	8,400	8,400	7,520	(880)
Miscellaneous	3,160	102,762	102,799	37
<i>Total Revenues</i>	<u>7,776,180</u>	<u>8,144,904</u>	<u>8,409,842</u>	<u>264,938</u>
Expenditures				
Current:				
Instruction:				
Regular	4,209,455	4,056,570	3,999,142	57,428
Special	571,668	552,668	546,526	6,142
Vocational	329,966	311,501	304,642	6,859
Adult/Continuing	0	4,750	4,735	15
Other	23,180	422,580	405,896	16,684
Support Services:				
Pupils	492,377	488,942	486,453	2,489
Instructional Staff	326,271	325,553	301,339	24,214
Board of Education	36,359	37,059	34,716	2,343
Administration	1,058,765	1,035,811	975,620	60,191
Fiscal	298,534	313,934	310,537	3,397
Operation and Maintenance of Plant	799,760	856,460	827,511	28,949
Pupil Transportation	970,117	922,017	905,063	16,954
Central	47,490	2,625	705	1,920
Operation of Non-Instructional Services	0	2,000	1,910	90
Extracurricular Activities	146,032	151,094	149,943	1,151
Capital Outlay	0	105,000	98,993	6,007
Debt Service:				
Principal Retirement	60,000	60,000	60,000	0
Interest and Fiscal Charges	1,725	1,725	1,725	0
<i>Total Expenditures</i>	<u>9,371,699</u>	<u>9,650,289</u>	<u>9,415,456</u>	<u>234,833</u>
Excess of Revenues Over/(Under) Expenditures	<u>(1,595,519)</u>	<u>(1,505,385)</u>	<u>(1,005,614)</u>	<u>499,771</u>
Other Financing Sources/(Uses)				
Sale of Assets	0	905	905	0
Advances In	0	0	8,123	8,123
Transfers Out	0	(34,747)	(34,747)	0
Advances Out	0	0	(10,000)	(10,000)
Total Other Financing Sources/(Uses)	<u>0</u>	<u>(33,842)</u>	<u>(35,719)</u>	<u>(1,877)</u>
<i>Net Change in Fund Balance</i>	<u>(1,595,519)</u>	<u>(1,539,227)</u>	<u>(1,041,333)</u>	<u>497,894</u>
<i>Fund Balance Beginning of Year</i>	<u>2,082,335</u>	<u>2,082,335</u>	<u>2,082,335</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>411,208</u>	<u>411,208</u>	<u>411,208</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$898,024</u></u>	<u><u>\$954,316</u></u>	<u><u>\$1,452,210</u></u>	<u><u>\$497,894</u></u>

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2004

	<u>Governmental Activity Internal Service Fund</u>
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	\$421,410
Current Liabilities	
Claims Payable	<u>95,382</u>
Net Assets	
Unrestricted	<u>326,028</u>
<i>Total Net Assets</i>	<u><u>\$326,028</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, 2004

	<u>Governmental Activity</u> <u>Internal Service</u> <u>Fund</u>
Operating Revenues	
Charges for Services	<u>\$1,297,784</u>
Operating Expenses	
Fringe Benefits	7,756
Purchased Services	291,689
Claims	<u>974,939</u>
<i>Total Operating Expenses</i>	<u>1,274,384</u>
<i>Operating Income</i>	23,400
Non-Operating Revenues	
Interest	2,553
<i>Change in Net Assets</i>	25,953
<i>Net Assets Beginning of Year</i>	<u>300,075</u>
<i>Net Assets End of Year</i>	<u><u>\$326,028</u></u>

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$1,297,784
Cash Payments for Goods and Services	(299,445)
Cash Payments for Claims	(975,910)
	22,429
<i>Net Cash Provided by Operating Activities</i>	<i>22,429</i>
Cash Flows from Investing Activities	
Interest	2,553
	2,553
<i>Net Cash Provided by Investing Activities</i>	<i>2,553</i>
<i>Net Increase in Cash and Cash Equivalents</i>	<i>24,982</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>396,428</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$421,410</i>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$23,400
Decrease in Liabilities:	
Claims Payable	(971)
	(971)
<i>Net Cash Provided by Operating Activities</i>	<i>\$22,429</i>

See accompanying notes to the basic financial statements

East Guernsey Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Fund	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$7,808	\$54,773
Investments	44,537	0
Accrued Interest Receivable	174	0
<i>Total Assets</i>	52,519	\$54,773
Liabilities		
Due to Students	0	54,773
<i>Total Liabilities</i>	0	\$54,773
Net Assets		
Held in Trust for Scholarships	52,519	
<i>Total Net Assets</i>	\$52,519	

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, 2004

	Private Purpose Trust Fund
Additions	
Interest	\$2,540
Deductions	
Scholarships Awarded	1,499
<i>Change in Net Assets</i>	1,041
<i>Net Assets Beginning of Year</i>	51,478
<i>Net Assets End of Year</i>	\$52,519

See accompanying notes to the basic financial statements

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East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 five instructional/support facilities, which are staffed by 67 classified employees, 85 certified teaching employees, and 8 administrators, who provide services to approximately 1,243 students and other community members.

Reporting Entity:

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

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

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

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

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

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

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

Proprietary Fund Type Proprietary Fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise 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 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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

(i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 6). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

The School District maintains an escrow account that is held separate from the School District's central bank account and is reflected in the financial statements as "Restricted Assets: Cash and Cash Equivalents with Escrow Agents."

The School District utilizes a financial institution to account for the self insurance internal service fund. This interest bearing depository account is presented in the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits.

During fiscal year 2004, investments were limited to certificates of deposit, federal home loan mortgage association notes, and STAROhio. 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, 2004. Certificates of deposit are reported at cost.

Following Ohio statues, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$27,084, which includes \$20,958, assigned from other School District funds.

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

F. Restricted Assets

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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, 2004

H. Inventory

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

I. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 Years
Machinery and Equipment	5-20 Years
Furniture and Fixtures	5-20 Years
Vehicles	8 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 School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. The School District records a liability for accumulated unused sick leave for employees to the extent it is probable that the benefits will result in termination payments based upon an estimate of past experience of making termination payments for sick leave. For purposes of establishing a liability for severance on employees expected to become eligible in the future, certified employees with accumulated unused sick leave balances who have ten years of current service with the School District and administrative and/or non-certified employees who meet the requirements set forth by the School Employees Retirement System or the State Teachers

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Retirement System are considered eligible. The School District determines the probability criteria based upon historical employment trends and negotiated agreements.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Bond Discounts, Premiums, and Issuance Costs

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

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

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

N. Interfund Activity

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

O. Fund Balance Reserves

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 maintenance of classroom facilities, various local district managed activities, and state and federal grants restricted to expenditures for specified purposes.

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

Q. Operating Revenues and Expenses

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

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 which has been approved by school districts in the County. Under this alternative method, the County Budget Commission has waived the requirement for the School District to adopt a tax budget; the Commission does require that the School District provide fiscal reports and projections on an annual basis.

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

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

NOTE 3 – PRIOR PERIOD RESTATEMENTS AND CHANGE IN ACCOUNTING PRINCIPLES

Changes in Accounting Principles For the fiscal year ended June 30, 2004, the School District has implemented GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments,” GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus,” GASB No. 38, “Certain Financial Statement Note Disclosures,” GASB No. 39, “Determining Whether Certain Organizations are Component Units,” GASB No. 41, “Budgetary Comparison Schedules – Perspective Differences,” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB Statement No. 34 creates new basic financial statements for reporting the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

able to present budgetary comparisons for the general and each major special revenue fund. This statement had no effect on the budgetary statements of the School District for fiscal year 2004.

GASB Statement No. 39 further defines the guidelines of GASB Statement No.14, "The Financial Reporting Entity." At June 30, 2004, there was no effect as a result of implementing GASB Statement 39.

Restatement of Fund Balances The fund classification was updated during fiscal year 2004 to reclassify the Food Service Fund, previously reported as an Enterprise Fund, as a Special Revenue Fund. This reclassification, a restatement of the energy conservation loan, and the implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The School District also changed the threshold for reporting capital assets to \$3,000. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Classroom Facility	Nonmajor Funds	Total
Fund Balances, June 30, 2003	\$2,279,275	\$687,203	\$7,896,324	\$423,571	\$11,286,373
Fund Reclassification:					
Food Service	0	0	0	8,158	8,158
Energy Conservation Loan Restatement	60,000	0		0	60,000
Interpretation 6:					
Compensated Absences	11,369	0	0	0	11,369
Restated Fund Balances, June 30, 2003	<u>\$2,350,644</u>	<u>\$687,203</u>	<u>\$7,896,324</u>	<u>\$431,729</u>	<u>\$11,365,900</u>
GASB 34 Adjustments:					
Capital Assets					7,689,675
Internal Service Fund					300,075
Vacation Benefits Payable					(34,059)
Compensated Absences					(396,511)
General Obligation Bonds Payable					(3,993,227)
Energy Conservation Loan Payable					(60,000)
Capital Leases Payable					(65,485)
Accrued Interest Payable					(5,560)
Intergovernmental Payable					(88,611)
Deferred Revenue - Delinquent Taxes and Grants					680,986
Governmental Activities Net Assets, June 30, 2003					<u>\$15,393,183</u>

The transition from proprietary fund equity to net assets of the business type activities is as follows:

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	<u>Food Service</u>
Fund Equity, June 30, 2003	\$11,681
Fund Reclassification, including the elimination of capital assets and long-term obligations	(11,681)
Business Type Activities, June 30, 2003	\$0

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$1,089,942)
Revenue Accruals	293,080
Advance In	8,123
Expenditure Accruals	86,620
Advances Out	(10,000)
Encumbrances	(329,214)
Budget Basis	(\$1,041,333)

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

8. Under limited circumstances, corporate debt interests rated in either the two highest rating classifications by at least two nationally recognized rating agencies.

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

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualifies trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the School District's deposits were \$5,955,343 and the bank balance was \$6,224,315. Of the bank balance:

- A. \$144,537 was covered by federal depository insurance; and
- B. \$6,079,778 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 the FDIC.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
STAROhio	<u><u>\$7,088,040</u></u>

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

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$12,998,846	\$44,537
Certificates of Deposit	44,537	(44,537)
STAROhio	(7,088,040)	7,088,040
GASB Statement 3	\$5,955,343	\$7,088,040

At June 30, 2004, the School District's Internal Service Fund had a balance of \$421,410 with OME-RESA, a jointly governed organization (See Note 18). The money is held by the claims service pool in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Self-Insurance Plan, Treasurer, Steubenville, Ohio 43952.

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2004 was \$251,300 in the General Fund, \$77,165 in the Debt Service Fund, and \$5,261 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2003, was \$520,810 in the General Fund, \$111,663 in the Debt Service Fund, and \$12,336 in the Classroom Facilities Special Revenue Fund.

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

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

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$65,792,600	85.68%	\$80,305,280	89.38%
Public Utility Personal	8,094,490	10.54%	7,310,130	8.14%
Tangible Personal	2,905,300	3.78%	2,226,930	2.48%
	\$76,792,390	100.00%	\$89,842,340	100.00%
Tax Rate per \$1,000 of assessed valuation		\$31.60		\$33.30

NOTE 7 - RECEIVABLES

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Governmental Activities

Workers' Compensation Refund	\$19,711
Tuition and Fees from Other Districts	1,773
Title IIA	7,201
IDEA Part B	2,427
Title I	34,677
Food Service Subsidy	1,834
	\$67,623
Total	\$67,623

NOTE 8 – INTERNAL BALANCES

A. Interfund Balances

Interfund balances at June 30, 2004 consisted of the following individual interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable General Fund</u>
Other Nonmajor Governmental	\$10,000

The loan to the Food Service Special Revenue Fund was made to support the cafeteria program due to the fund being unable to adequately support this activity.

B. Transfers

Interfund transfers for the year ended June 30, 2004 consisted of the following:

<u>Transfer from</u>	<u>Transfer to Other Governmental Funds</u>
General Fund	\$34,747

The above mentioned Transfers From/To were used to move receipts from the General Fund which collected the receipts to the State Grants Fund for the General Fund share of the electronic management information systems program and the Activity Complex Capital Projects Fund for interest that had been originally receipted into the General Fund.

NOTE 9 - CAPITAL ASSETS

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	Balance 6/30/03	Additions	Deletions	Balance 6/30/04
Nondepreciable Capital Assets:				
Land	\$72,901	\$105,000	\$0	\$177,901
Construction in Progress	2,182,072	11,861,855	0	14,043,927
Total Nondepreciable Capital Assets	2,254,973	11,966,855	0	14,221,828
Depreciable Capital Assets:				
Land Improvements	366,526	0	3,000	363,526
Buildings and Improvements	7,345,265	3,530	0	7,348,795
Furniture and Equipment	471,542	10,792	11,289	471,045
Vehicles	1,232,464	119,740	30,715	1,321,489
Total Depreciable Capital Assets	9,415,797	134,062	45,004	9,504,855
Accumulated Depreciation:				
Land Improvements	(152,553)	(12,122)	(3,000)	(161,675)
Buildings and Improvements	(2,776,942)	(149,249)	0	(2,926,191)
Furniture and Equipment	(263,315)	(25,496)	(11,289)	(277,522)
Vehicles	(788,285)	(73,320)	(30,715)	(830,890)
Total Accumulated Depreciation	(3,981,095)	(260,187)	(45,004)	(4,196,278)
Total Depreciable Capital Assets, Net	5,434,702	(126,125)	0	5,308,577
Governmental Capital Assets, Net	\$7,689,675	\$11,840,730	\$0	\$19,530,405

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$110,472
Special	15,235
Vocational	9,696
Support Services:	
Pupil	12,469
Instructional Staff	5,815
Administration	6,236
Fiscal	1,052
Operation of Maintenance and Plant	13,109
Pupil Transportation	75,518
Extracurricular	5,748
Food Service Operations	4,837
Total Depreciation Expense	\$260,187

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004, the School District contracted with the Ohio School Insurance Program/Marsh USA Inc for property insurance and boiler and machinery coverage. The policies include a \$1,000 deductible for other property losses and a \$500 deductible for crimes. Professional and general liability is protected by the Harcum-Schuett/Ohio School Plan Insurance with a \$1,000,000 single occurrence limit and \$3,000,000 general aggregate limit, and no deductible. Vehicles are covered by the Harcum-Schuett/Ohio School Plan Educational Automobile Insurance plan and have \$1,000 deductible for comprehensive and a \$1,000 deductible for collision for school buses. Automobile liability has a \$2,000,000 combined single limit of liability.

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

Health and dental coverages are provided on a self-insured basis through Ohio Mid Eastern Regional Education Service Agency Health Benefits Plan. The third party administrator, Self Funded Plans, Inc reviews and pays the claims. The School District pays monthly premiums of \$964.96 for family coverage (full rate is \$1,058.58) and \$401.71 for individual coverage (full rate is \$440.71). Premiums for dental coverage are \$51.07 monthly for family and \$20.34 monthly for single coverage, paid in full by the Board of Education. Vision insurance is available to employees enrolling in a mandatory steerage preferred provider organization plan. Those premiums are \$18.59 per month for family coverage, \$8.31 per month for single coverage and are paid in full by the Board of Education. Premiums are charged to the same funds that pay the employees' salaries.

The claims liability of \$95,382 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Changes in claims activity for the past two fiscal years are as follows:

2003	\$114,260	\$801,133	\$819,040	\$96,353
2004	\$96,353	\$974,939	\$975,910	\$95,382

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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 E. Broad St., Suite 100, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$183,859, \$176,270, and \$157,797 respectively; 81.59 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for the fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$646,692, \$593,907, and \$556,493 respectively; 83.86 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for the fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$1,099 made by the School District and \$4,595 made by the plan members.

C. Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$46,192 for fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$89,639.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Other Insurance Benefits

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District has entered into capitalized leases for copying equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in government wide statements governmental activities in the amount of \$87,450, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability 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 \$47,375. Principal payments in fiscal year 2004 totaled \$20,707 in the governmental funds.

Future minimum lease payments through 2006 are as follows:

Fiscal Year <u>Ending June 30, 2003</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$22,638	\$3,087	\$25,725
2006	22,140	966	23,106
Total	<u>\$44,778</u>	<u>\$4,053</u>	<u>\$48,831</u>

NOTE 15 – NOTES PAYABLE

During fiscal year 2004 the School District issued bond anticipation notes in the amount of \$1,730,405 at 1.50% interest for the activity complex capital project. The notes were completely repaid on May 5, 2004 when bonds were issued for the project.

NOTE 16 - LONG - TERM OBLIGATIONS

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due In One Year
Governmental Activities					
1992 School Improvement Bonds					
Capital Appreciation Bonds, \$100,217 @ 5.6%-5.7%	\$100,217	\$0	\$52,433	\$47,784	\$47,784
Accretion of Interest, \$199,784 @ 9.5%	173,010	19,647	97,568	95,089	95,089
Total School Improvement Bonds	273,227	19,647	150,001	142,873	142,873
2002 School Facilities Construction, Improvement, and Refunding Bonds					
Serial/Term Bonds, \$3,720,000 @ 1.55%-5.5%	3,720,000	0	60,000	3,660,000	95,000
Total School Facilities and Refunding Bonds	3,720,000	0	60,000	3,660,000	95,000
2003 School Facilities and Improvement Bonds					
Serial/Term Bonds, \$1,730,405 @ 2.0%-5.25%	0	1,730,405	0	1,730,405	75,405
Premium, \$69,369	0	69,369	1,806	67,563	0
Total School Facilities and Improvement Bonds	0	1,799,774	1,806	1,797,968	75,405
Total General Obligation Bonds	3,993,227	1,819,421	211,807	5,600,841	313,278
1994 Engery Conservation Loan, \$910,778 @ 4.0%-5.75%	60,000	0	60,000	0	0
Capital Leases	65,485	0	20,707	44,778	22,638
Compensated Absences	396,511	40,152	18,713	417,950	26,324
Total General Long-Term Obligations	\$4,515,223	\$1,859,573	\$311,227	\$6,063,569	\$362,240

Capital leases will be paid from the General Fund. Compensated absences will be paid from the General, State/Federal Special Revenue and Food Service Funds.

1992 School Improvement Bonds - (the 1992 Bonds) were used to fund the construction of a new high school and sewage treatment facility, and the renovations of existing school buildings, as approved by voters in May 1985. The 1992 Bonds were general obligation bonds issued in the amount of \$2,500,217, which consisted of serial, term and capital appreciation (deep discount) bonds, \$1,570,000, \$830,000, and \$100,217, respectively. The School District fully repaid the serial bonds and refunded the term bonds associated with this issue through the issuance of the 2002 School Facilities Construction and Improvement and Refunding Bonds. After the refunding, only the capital appreciation bonds remained outstanding on this issue. During fiscal year 2004, one of these bonds was repaid, leaving one

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

outstanding capital appreciation bond at June 30, 2004. The bonds are being retired from the Debt Service Fund from the proceeds of a bond issue tax levy. Principal outstanding at June 30, 2004 amounted to \$47,784, accreted interest outstanding at June 30, 2004, including current year accretion of \$19,647 amounted to \$95,089, for a total bond liability of \$142,873. The final payment on this issue is scheduled for December 1, 2004.

In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new facilities.

Principal and Interest requirements to retire the 1992 School Improvement Bonds at June 30, 2004 are as follows:

Fiscal Year Ending June 30, 2004	Principal	Accretion/ Interest	Total
2005	\$47,784	\$102,216	\$150,000

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

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:

Date	Principal Amount to be Redeemed
2016	\$125,000

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:

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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	180,000
	<u>515,000</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, 2004 are as follows:

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Fiscal Year Ending June 30, 2004	Principal	Interest	Total
2005	\$95,000	\$153,325	\$248,325
2006	245,000	148,254	393,254
2007	245,000	139,679	384,679
2008	250,000	131,017	381,017
2009	255,000	122,179	377,179
2010-2014	680,000	519,303	1,199,303
2015-2019	605,000	412,325	1,017,325
2020-2024	745,000	242,154	987,154
2025-2027	540,000	42,538	582,538
Total	<u>\$3,660,000</u>	<u>\$1,910,774</u>	<u>\$5,570,774</u>

2003 School Facilities and Improvement Bonds - On February 1, 2004, the School District issued \$1,730,405 in voted general obligation bonds which included serial and term bonds to pay for the improvement of the activity complex at Buckeye Trail High School. The bonds were issued for a sixteen year period with a final maturity at December 1, 2019. The bonds were issued at a premium of \$69,369, which is reported as a reduction to bonds payable. This premium is being amortized to interest expense over the life of the bonds using the straight-line method. The issuance costs of \$65,295 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The bonds are being retired from the debt service fund from the proceeds of a bond issue tax levy. The remaining balance in deferred charges at June 30, 2004 is \$63,595.

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:

Date	Principal Amount to be Redeemed
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:

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

Principal and Interest requirements to retire the 2003 School Facilities and Improvement Bonds at June 30, 2004 are as follows:

Fiscal Year Ending June 30, 2004	Principal	Interest	Total
2005	\$75,405	\$62,900	\$138,305
2006	80,000	61,345	141,345
2007	80,000	59,745	139,745
2008	85,000	58,095	143,095
2009	90,000	56,232	146,232
2010-2014	505,000	241,186	746,186
2015-2019	660,000	126,107	786,107
2020	155,000	3,875	158,875
Total	\$1,730,405	\$669,485	\$2,399,890

The School District's overall legal debt margin was \$3,385,265, with an unvoted debt margin of \$89,842 at June 30, 2004.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 17 – CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had the following contractual purchase commitments:

Contractor/Project	Fund	Purchase Commitment	Amounts Paid as of 6/30/04	Amounts Remaining on Contracts
Baird Brothers - Brick	Classroom Facilities	\$129,260	\$129,260	\$0
York International - Unit Ventilators	Classroom Facilities	94,289	94,289	0
Nicolozakes - Site Preparation	Classroom Facilities	808,280	808,280	0
The Knoch Company - General Trades	Classroom Facilities	6,790,664	4,348,316	2,442,348
Traditional Harwoods - Gym Floor	Classroom Facilities	57,700	0	57,700
Peterman Plumbing - Plumbing	Classroom Facilities	1,017,592	868,217	149,375
The Geo. P. Frueh Co. - HVAC	Classroom Facilities	3,718,134	2,676,171	1,041,963
S A Comunale Co. - Fire Protection	Classroom Facilities	421,579	350,482	71,097
Hilscher Clarke - Electrical	Classroom Facilities	1,265,995	819,267	446,728
Sun Technologies - Technology Infrastructure	Classroom Facilities	145,008	93,612	51,396
Louis R. Polster - Kitchen Equipment	Classroom Facilities	162,475	0	162,475
Sun Technologies - Technology Equipment	Classroom Facilities	502,217	0	502,217
The Comm Group - Security	Classroom Facilities	133,000	0	133,000
Greenleaf Landscaping - Landscaping	Classroom Facilities	87,000	0	87,000
Miscellaneous Contracts - Architects, Management, Legal Fee, Etc.	Classroom Facilities	2,635,724	2,298,196	337,528
All Star Bleachers - Grandstand	Activity Complex	214,910	8,809	206,101
Raeder Construction - General Trades	Activity Complex	901,953	188,171	713,782
Genesis Electric - Electrical	Activity Complex	149,825	29,920	119,905
Enviro Flow Co. - HVAC, Plumbing	Activity Complex	184,930	37,680	147,250
Miscellaneous Contracts - Architects, Management, Legal Fee, Etc.	Activity Complex	317,201	231,149	86,052
Totals		<u>\$19,737,736</u>	<u>\$12,981,819</u>	<u>\$6,755,917</u>

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Mid East Ohio Career and Technology Center – The Mid East Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the thirteen participating school district’s elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2004, the School District made no contributions to the Vocational School District. To obtain financial information write to the Mid East Ohio Vocational School, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district’s elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2004, the total amount paid to OME-RESA from the School District was \$34,610. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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

Metropolitan Educational Council (MEC) – The Metropolitan Educational Council is a consortium of school districts and related agencies in Ohio. The organization is composed of over 135 members. The governing board is comprised of either the superintendent or his designated representative from each participating school district in Franklin County and one representative from each county outside of Franklin County. Each year the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District’s membership payment to MEC for fiscal year 2004 was \$440. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, Ohio 43232.

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 Plan (GRP), an insurance purchasing pool. The GRP’s business and affairs are conducted by a three member Board of Directors consisting of the President, President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

B. Claims Servicing Pool

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

NOTE 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.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. In prior years the School District expended the budget reserve amount pursuant to State Statute, and as a result no budget reserve exists at June 30, 2004.

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

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0
Current Year Set-aside Requirement	172,671	172,671
Current Year Offsets	0	(40,291)
Qualifying Disbursements	(196,172)	(215,332)
Qualifying Capital Disbursements from Bond Proceeds	0	(494,903)
Totals	<u>(\$23,501)</u>	<u>(\$577,855)</u>
Allowable Carry Forward for Fiscal Year 2004	(23,501)	(494,903)
Allowable Carry Forward at June 30, 2003	(379,116)	(1,686,018)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$402,617)</u>	<u>(\$2,180,921)</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>

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

NOTE 21 – CONTINGENCIES/SUBSEQUENT EVENTS

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, 2004.

B. Litigation

The School District is currently party to legal proceedings. The School District management is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

East Guernsey Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 22 – STATE SCHOOL FUNDING DECISION

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

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

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

**EAST GUERNSEY LOAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster: Food Donation	N/A	10.550	\$0	\$38,368	\$0	\$38,368
School Breakfast Program	069682-05PU-2004	10.553	65,376		65,376	
National School Lunch Program	069682-LLP1-2004	10.555	137,323		137,323	
Summer Food Service Program for Children	069682-23/24PU-2003	10.559	<u>8,123</u>		<u>8,123</u>	
Total United States Department of Agriculture - Nutrition Cluster			<u>210,822</u>	<u>38,368</u>	<u>210,822</u>	<u>38,368</u>
UNITED STATES DEPARTMENT OF EDUCATION						
Twenty-First Century Community Learning Centers - Direct Program	S287B010903	84.287	92,745		92,745	
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	069682-6BSF-2004	84.027	202,733		182,383	
Title I Grants to Local Educational Agencies	069682-C1S1-2004	84.010	391,501		350,707	
Safe and Drug-Free Schools and Communities State Grant	069682-DRS1-2004	84.186	7,807		7,830	
State Grants for Innovative Programs	069682-C2S1-2004	84.298	6,608		6,608	
Education Technology State Grants	069682-TJS1-2004	84.318	10,729		11,072	
Rural Education	069682-RUS1-2004	84.358	31,932		31,932	
Improving Teacher Quality State Grants	069682-TRS1-2004	84.367	<u>75,974</u>		<u>72,630</u>	
Total United States Department of Education			<u>820,029</u>	<u>0</u>	<u>755,907</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Education:</i>						
Temporary Assistance to Needy Families	N/A	93.558	<u>6,750</u>		<u>6,750</u>	
Total United States Department of Health and Human Services			<u>6,750</u>	<u>0</u>	<u>6,750</u>	<u>0</u>
Total Schedule of Federal Awards Receipts and Expenditures			<u>\$1,037,601</u>	<u>\$38,368</u>	<u>\$973,479</u>	<u>\$38,368</u>

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

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C - TRANSFERS

Effective for Fiscal Year 2003, Ohio Department of Education (ODE) permitted School Districts to reallocate funding between certain Federal programs, including, but not limited to, CFDA No. 84.367(Improving Teacher Quality State Grants) and 84.010 (Title I Grants to Local Educational Agencies). The School District reallocated \$5,556 between these two programs during Fiscal Year 2004.



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the 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, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 4, 2005, wherein we noted the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated April 4, 2005, we reported another matter involving internal control over financial reporting.

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*. In a separate letter to the School District's management dated April 4, 2005, we reported other matters related to noncompliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

April 4, 2005



Auditor of State Betty Montgomery

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

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 are applicable to the major federal program for the year ended June 30, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the 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 are applicable to the major federal program for the year ended June 30, 2004.

Internal Control over Compliance

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be timely detected by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

April 4, 2005

**EAST GUERNSEY SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Title I, Grants to Local Educational Agencies, CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**EAST GUERNSEY LOCAL SCHOOL DISTRICT
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
MAY 10, 2005**