

ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN COUNTY

BASIC FINANCIAL STATEMENTS –CASH BASIS

For The Year Ended June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Allen East Local School District
9520 Harrod Road
Harrod, Ohio 45850

We have reviewed the *Independent Auditors' Report* of the Allen East Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 to June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Allen East Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 13, 2006

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**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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We're Ready For Your Future

September 16, 2005

The Board of Education
Allen East Local School District
Harrod, Ohio 45850

INDEPENDENT AUDITORS' REPORT

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

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

Ohio Administrative Code § 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District, Allen County, Ohio, as of June 30, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of the Government'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.

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, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

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

The discussion and analysis of the Allen East Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- ❑ General Receipts accounted for \$16,342,924 in receipt or 68% of all receipts.
- ❑ Total program expenses were \$18,068,407; \$17,704,966 in governmental activities.
- ❑ In total, net assets increased \$6,113,832.

Using this Annual Report

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

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 nonmajor funds presented in total in one column. For fiscal year 2005, the General Fund, OSFC Building Fund, the Debt Service Fund, and OSFC Local/State Share Fund are by far the most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question.

These 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 that, 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 which restrict receipt growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund, the OSFC Building Fund, the OSFC Local/State Share fund and the Debt Service 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 year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Proprietary Funds - When the School District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities and Net Assets. The School District has three enterprise funds – the Food Service Fund, Uniform School Supplies Fund and the Recreation Fund.

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 17 and 18. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The School District has provided a comparative analysis between fiscal year 2005 and fiscal year 2004.

(Table 1)
Net Assets –Cash Basis

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
ASSETS						
Cash & cash equivalents	<u>\$ 17,259,005</u>	<u>\$ 11,144,329</u>	<u>\$ 15,957</u>	<u>\$ 16,802</u>	<u>\$ 17,274,962</u>	<u>\$11,161,131</u>
Total Assets	<u>\$ 17,259,005</u>	<u>\$ 11,144,329</u>	<u>\$ 15,957</u>	<u>\$ 16,802</u>	<u>\$ 17,274,962</u>	<u>\$11,161,131</u>
NET ASSETS						
Restricted:						
Capital Projects	\$ 14,925,261	\$ 9,180,835	\$ 0	\$ 0	\$ 14,925,261	\$ 9,180,835
Debt Service	212,458	625	0	0	212,458	625
Unrestricted	<u>2,121,286</u>	<u>1,962,869</u>	<u>15,957</u>	<u>16,802</u>	<u>2,137,243</u>	<u>1,979,671</u>
Total Net Assets	<u>\$ 17,259,005</u>	<u>\$ 11,144,329</u>	<u>\$ 15,957</u>	<u>\$ 16,802</u>	<u>\$ 17,274,962</u>	<u>\$11,161,131</u>

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

Table 2 shows the changes in net assets for fiscal year 2005 in comparison to fiscal year 2004. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	2005			2004		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 113,816	\$ 287,318	\$ 401,134	\$ 134,636	\$ 275,431	\$ 410,067
Operating Grants	7,372,935	65,246	7,438,181	287,229	59,463	346,692
Capital Grants	0	0	0	8,901,923	0	8,901,923
<i>General Revenues</i>						
Property Taxes	2,547,154	0	2,547,154	2,081,501	0	2,081,501
Grants and Entitlements	4,724,704	0	4,724,704	4,867,860	0	4,867,860
Other	9,071,034	32	9,071,066	64,941	167	65,108
Transfers-In	<u>(10,000)</u>	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>20,000</u>	<u>20,000</u>
Total Revenues	23,819,643	362,596	24,182,239	16,338,090	355,061	16,693,151
<i>Program Expenses</i>						
Instruction	4,417,214	0	4,417,214	4,025,965	0	4,025,965
Support Services	2,768,616	0	2,768,616	2,651,513	0	2,651,513
Non-Instructional	2,632	0	2,632	71	0	71
Extracurricular	279,910	0	279,910	269,370	0	269,370
Capital Outlay	1,218,720	0	1,218,720	14,377	0	14,377
Repayment of Debt	9,017,874	0	9,017,874	0	0	0
Transfers-Out	0	0	0	20,000	0	20,000
Salaries and Fringe						
Benefits	0	0	0	0	185,403	185,403
Food Services	0	197,742	197,742	0	1,562	1,562
Uniform School Supplies	<u>0</u>	<u>165,699</u>	<u>165,699</u>	<u>0</u>	<u>175,091</u>	<u>175,091</u>
Total Expenses	<u>17,704,966</u>	<u>363,441</u>	<u>18,068,407</u>	<u>6,981,296</u>	<u>362,056</u>	<u>7,343,352</u>
Increase (Decrease) in Net Assets	<u>\$ 6,114,677</u>	<u>\$ (845)</u>	<u>\$ 6,113,832</u>	<u>\$ 9,356,794</u>	<u>\$ (6,995)</u>	<u>\$ 9,349,799</u>

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

Governmental Activities

Several receipt sources fund the School District's governmental activities with school foundation program being the largest contributor. School foundation provided \$4.3 million in fiscal year 2005 and \$4.6 million in 2004. Property tax levies generated \$2.5 million in fiscal year 2005 compared to \$1.7 million in fiscal year 2004. General receipts from grants and entitlements are also a large receipt generator. With the combination of taxes and intergovernmental receipts funding over 80% of expenses in governmental activities, the School District monitors both of these receipt sources very closely for fluctuations.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

(Table 3)
Governmental Activities

	2005		2004	
	Total Cost of Service	Net (Receipts) Cost Of Service	Total Cost of Service	Net (Receipts) Cost Of Service
Instruction	\$ 4,417,214	\$ 4,130,248	\$ 4,025,965	\$ 3,832,513
Support Services:				
Pupil and Instructional Staff	645,397	484,094	596,528	453,164
Board of Education, Administration, Fiscal and Business Operation and	928,437	925,479	967,492	967,492
Maintenance of Plant	622,669	606,735	607,440	598,440
Pupil Transportation	469,372	458,943	462,252	462,252
Central	102,741	97,741	17,801	12,801
Operation of Non-Instructional Extracurricular Activities	2,632	1,500	71	(1,000)
Capital Outlay	279,910	176,239	269,370	178,757
Repayment of Debt	1,218,720	(5,652,083)	14,377	(8,866,911)
	9,017,874	8,989,319	0	0
Total	\$17,704,966	\$10,218,215	\$ 6,961,296	\$ (2,362,492)

Instruction and student support services comprise 29% of governmental program expenses in fiscal year 2005; 66% in fiscal year 2004. Interest, fiscal and administration charges were 5% in 2005; 13% in 2004. Interest expense was attributable to the outstanding bonds, fiscal expenses include payments to the County Auditor(s) for administrative fees and other administrative services provided by the District. Pupil transportation and the operation/maintenance of facilities account for 6% in 2005 and 15% in 2004.

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

Fiscal year 2005 percentages are much lower than the previous year due to the repayment of the \$8.5 million bond anticipation note included in governmental expenses.

The dependence upon tax receipts for governmental activities is apparent. The community, as a whole, is by far the primary support for Allen East Local School District students.

Business-Type Activities

In reviewing the business-type activities' net receipt/ (expense) resulting from cash basis transactions, there are certain activities that will be examined in an effort to obtain positive cash flow in the future.

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 year 2005, the School District did significantly modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual receipts were \$6,917,652 compared to the original budget estimates of \$6,832,914. Of this \$84,738 increase, most was attributable to an increase in tax receipt.

Debt Administration

In 2004, the School District passed a bond issue providing \$8.5 million for the purpose of an Ohio School Facilities Commission project. The District will be funded by the OSFC at 79% for their portion of the project.

At June 30, 2004, the School District had an \$8,500,000 Bond Anticipation Note outstanding. This note was repaid during fiscal year 2005, with the proceeds received from issued general obligation bonds. See note 10 for additional details.

A change in Ohio law required school districts to set aside 3% of certain receipts for capital improvements and an additional 3% for textbooks (see note 11). For fiscal years 2005 and 2004, this amounted to \$152,998 and \$150,949, respectively, for each set aside. In 2005 the School District had qualifying disbursements equaling \$361,961 as offsets for capital acquisition; for 2004 this total was \$395,950. For the textbooks, the School District disbursed \$209,403 in 2005 and \$91,489 in 2004. Excess disbursements for textbooks are available to be carried forward into the 2006 fiscal year.

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

Current Issues

The Allen East Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last emergency levy was passed by the residents of the district in November 1994, with the promise that the receipts generated by a levy would provide sufficient funding for five years. In November 2004, the Board of Education submitted a new emergency levy which was approved by the residents.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall receipts generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of receipts growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 17% of receipts for governmental activities for the Allen East Local School District in fiscal year 2005.

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned disbursements so that the last levy has stretched for longer than it was planned. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax receipts growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Allen East Local School District has not anticipated any meaningful growth in State receipts. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District.

Another School District concern is the State Legislative approval of the biennial budget, effective July 1, 2003, which had a negative impact on the district. How the legislature plans to fund educational programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to 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 Rhonda Zimmerly, Treasurer of Allen East Local School District, 9520 Harrod Road, Harrod, OH 45850 or ae_treas@noacsc.org.

Allen East Local School District
Statement of Net Assets - Cash Basis
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 17,259,005	\$ 15,957	\$ 17,274,962
<i>Total Assets</i>	<u>\$ 17,259,005</u>	<u>\$ 15,957</u>	<u>\$ 17,274,962</u>
 Net Assets			
Restricted for:			
Capital Projects	\$ 14,925,261	\$ 0	\$ 14,925,261
Debt Service	212,458	0	212,458
Unrestricted	2,121,286	15,957	2,137,243
<i>Total Net Assets</i>	<u>\$ 17,259,005</u>	<u>\$ 15,957</u>	<u>\$ 17,274,962</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Activities - Cash Basis
For the Year Ended June 30, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating and Capital Grants, Contributions and Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Instruction						
Regular	\$ 3,528,758	\$ 11,349	\$ 27,173	\$ (3,490,236)	\$ 0	\$ (3,490,236)
Special	591,674	1,340	187,524	(402,810)	0	(402,810)
Adult/Continuing	1,631	0	19,443	17,812	0	17,812
Other	295,151	824	39,313	(255,014)	0	(255,014)
Support Services						
Pupil	440,511	0	134,956	(305,555)	0	(305,555)
Instructional Staff	204,886	0	26,347	(178,539)	0	(178,539)
Board of Education	31,252	0	0	(31,252)	0	(31,252)
Administration	639,882	0	0	(639,882)	0	(639,882)
Fiscal	200,110	0	2,958	(197,152)	0	(197,152)
Business	57,193	0	0	(57,193)	0	(57,193)
Operation and Maintenance of Plant	622,669	0	15,934	(606,735)	0	(606,735)
Pupil Transportation	469,372	0	10,429	(458,943)	0	(458,943)
Central	102,741	0	5,000	(97,741)	0	(97,741)
Operation of Non-Instructional Services	2,632	0	1,132	(1,500)	0	(1,500)
Extracurricular Activities	279,910	100,303	3,368	(176,239)	0	(176,239)
Capital Outlay						
Facilities Acquisition and Construction	1,218,720	0	6,870,803	5,652,083	0	5,652,083
Repayment of Debt						
Principal	8,500,000	0	0	(8,500,000)	0	(8,500,000)
Interest	421,948	0	0	(421,948)	0	(421,948)
Acquisition Costs	95,926	0	0	(95,926)	0	(95,926)
Total Governmental Activities	17,704,966	113,816	7,344,380	(10,246,770)	0	(10,246,770)
Business-Type Activities:						
Food Services	197,742	149,868	65,246	0	17,372	17,372
Uniform School Supplies	165,699	137,450	0	0	(28,249)	(28,249)
Total Business-Type Activities	363,441	287,318	65,246	0	(10,877)	(10,877)
Totals	\$ 18,068,407	\$ 401,134	\$ 7,409,626	(10,246,770)	(10,877)	(10,257,647)
General Receipts:						
Property Taxes Levied for:						
General Purposes				2,290,643	0	2,290,643
Debt Service				256,511	0	256,511
Grants and Entitlements not Restricted						
to Specific Programs				4,753,259	0	4,753,259
Proceeds from the Sale of Bonds				8,731,357	0	8,731,357
Investment Income				31,500		31,500
Interest				277,188	32	277,220
Miscellaneous				30,989	0	30,989
Total General Receipts				16,371,447	32	16,371,479
Transfers				(10,000)	10,000	0
Total General Receipts and Transfers				16,361,447	10,032	16,371,479
Change in Net Assets				6,114,677	(845)	6,113,832
<i>Net Assets - Beginning of Year</i>				<u>11,144,328</u>	<u>16,802</u>	<u>11,161,130</u>
<i>Net Assets - End of Year</i>				<u>\$ 17,259,005</u>	<u>\$ 15,957</u>	<u>\$ 17,274,962</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2005

	General Fund	OSFC Building Fund	OSFC Local/State Share Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 1,935,675	\$ 2,233,407	\$ 12,316,426	\$ 212,458	\$ 561,039	\$ 17,259,005
<i>Total Assets</i>	<u>\$ 1,935,675</u>	<u>\$ 2,233,407</u>	<u>\$ 12,316,426</u>	<u>\$ 212,458</u>	<u>\$ 561,039</u>	<u>\$ 17,259,005</u>
Fund Balances						
Reserved for Encumbrances	\$ 42,775	\$ 125,400	\$ 642,216	\$ 0	\$ 27,228	\$ 837,619
Unreserved:						
Undesignated, Reported in:						
General Fund	1,892,900	0	0	0	0	1,892,900
Special Revenue Funds	0	0	0	0	81,598	81,598
Debt Service Funds	0	0	0	212,458	0	212,458
Expendable Trust Funds	0	0	0	0	78,126	78,126
Capital Projects Funds	0	2,108,007	11,674,210	0	374,087	14,156,304
<i>Total Fund Balances</i>	<u>\$ 1,935,675</u>	<u>\$ 2,233,407</u>	<u>\$ 12,316,426</u>	<u>\$ 212,458</u>	<u>\$ 561,039</u>	<u>\$ 17,259,005</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	OSFC Building Fund	OSFC Local/State Share Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
Receipts						
Taxes	\$ 2,117,560	\$ 0	\$ 0	\$ 256,511	\$ 173,083	\$ 2,547,154
Intergovernmental	4,728,072	0	6,869,142	28,555	455,353	12,081,122
Interest	53,798	4,523	31,210	186,794	863	277,188
Investment Income	0	0	0	31,500	0	31,500
Tuition and Fees	13,513	0	0	0	1,572	15,085
Extracurricular Activities	0	0	0	0	115,248	115,248
Miscellaneous	4,709	0	0	0	25,480	30,189
<i>Total Receipts</i>	<u>6,917,652</u>	<u>4,523</u>	<u>6,900,352</u>	<u>503,360</u>	<u>771,599</u>	<u>15,097,486</u>
Disbursements						
Current:						
Instruction						
Regular	3,477,479	0	0	0	51,279	3,528,758
Special	410,554	0	0	0	181,120	591,674
Adult/Continuing	0	0	0	0	1,631	1,631
Other	252,468	0	0	0	42,683	295,151
Support Services						
Pupil	270,561	0	0	0	169,950	440,511
Instructional Staff	179,389	0	0	0	25,497	204,886
Board of Education	31,252	0	0	0	0	31,252
Administration	639,882	0	0	0	0	639,882
Fiscal	191,902	0	0	5,010	3,198	200,110
Business	57,193	0	0	0	0	57,193
Operation and Maintenance of Plant	578,000	0	0	0	44,669	622,669
Pupil Transportation	415,722	0	0	0	53,650	469,372
Central	93,242	0	0	0	9,499	102,741
Operation of Non-Instructional Services	0	0	0	0	2,632	2,632
Extracurricular Activities	161,894	0	0	0	118,016	279,910
Facilities Acquisition and Construction	0	1,116	1,209,059	0	8,545	1,218,720
Repayment of Debt						
Principal	0	0	0	8,500,000	0	8,500,000
Interest	0	0	0	421,948	0	421,948
Acquisition Costs	0	0	0	95,926	0	95,926
<i>Total Disbursements</i>	<u>6,759,538</u>	<u>1,116</u>	<u>1,209,059</u>	<u>9,022,884</u>	<u>712,369</u>	<u>17,704,966</u>
<i>Excess of Receipts Over/ (Under)</i>						
<i>Disbursements</i>	<u>158,114</u>	<u>3,407</u>	<u>5,691,293</u>	<u>(8,519,524)</u>	<u>59,230</u>	<u>(2,607,480)</u>
Other Financing Sources (Uses)						
Proceeds from the Sale of Bonds	0	0	0	8,499,992	0	8,499,992
Premium on Issuance of Bonds	0	0	0	231,365	0	231,365
Other Financing Sources	800	0	0	0	0	800
Transfers-In	0	0	0	0	173	173
Transfers-Out	(10,000)	0	0	0	(173)	(10,173)
<i>Total Other Financing Sources (Uses)</i>	<u>(9,200)</u>	<u>0</u>	<u>0</u>	<u>8,731,357</u>	<u>0</u>	<u>8,722,157</u>
<i>Net Change in Fund Balances</i>	148,914	3,407	5,691,293	211,833	59,230	6,114,677
<i>Fund Balances - Beginning of Year</i>	<u>1,786,761</u>	<u>2,230,000</u>	<u>6,625,133</u>	<u>625</u>	<u>501,809</u>	<u>11,144,328</u>
<i>Fund Balances - End of Year</i>	<u>\$ 1,935,675</u>	<u>\$ 2,233,407</u>	<u>\$ 12,316,426</u>	<u>\$ 212,458</u>	<u>\$ 561,039</u>	<u>\$ 17,259,005</u>
Encumbrances	\$ 42,775	\$ 125,400	\$ 642,216	\$ 0	\$ 27,228	\$ 837,619

See accompanying notes to the basic financial statements.

Allen East Local School District
*Statement of Cash Receipts, Disbursements and Changes in Fund Balance -
 Budget and Actual - Budget Basis
 General Fund
 For the Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Receipts				
Taxes	\$ 1,952,816	\$ 2,013,815	\$ 2,117,560	\$ 103,745
Intergovernmental	4,740,000	4,880,500	4,728,072	(152,428)
Interest	36,000	36,000	53,798	17,798
Tuition and Fees	19,300	19,300	13,513	(5,787)
Miscellaneous	84,798	13,100	4,709	(8,391)
<i>Total Receipts</i>	<u>6,832,914</u>	<u>6,962,715</u>	<u>6,917,652</u>	<u>(45,063)</u>
Disbursements				
Current:				
Instruction				
Regular	3,605,370	3,943,108	3,483,765	459,343
Special	352,045	686,709	410,554	276,155
Other	173,395	256,832	252,468	4,364
Support Services				
Pupil	318,860	341,790	271,387	70,403
Instructional Staff	205,860	232,580	179,389	53,191
Board of Education	36,000	110,921	31,915	79,006
Administration	771,430	745,731	640,020	105,711
Fiscal	180,980	226,560	195,787	30,773
Business	100,000	80,640	57,343	23,297
Operation and Maintenance of Plant	612,770	1,161,613	588,701	572,912
Pupil Transportation	562,700	614,938	435,522	179,416
Central	0	138,104	93,567	44,537
Operation of Non-Instructional Services	111,500	0	0	0
Extracurricular Activities	143,570	188,450	161,895	26,555
Capital Outlay				
Facilities Acquisition and Construction	0	5,000	0	5,000
<i>Total Disbursements</i>	<u>7,174,480</u>	<u>8,732,976</u>	<u>6,802,313</u>	<u>1,930,663</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(341,566)</u>	<u>(1,770,261)</u>	<u>115,339</u>	<u>1,885,600</u>
Other Financing Sources (Uses)				
Proceeds from the Sale of Capital Assets	5,000	2,500	0	2,500
Other Financing Sources	0	12,500	800	11,700
Transfers-Out	(1,500)	(29,500)	(10,000)	(19,500)
Other Financing Uses	0	(2,000)	0	(2,000)
<i>Total Other Financing Sources (Uses)</i>	<u>3,500</u>	<u>(16,500)</u>	<u>(9,200)</u>	<u>(7,300)</u>
Net Change in Fund Balances	(338,066)	(1,786,761)	106,139	(1,892,900)
Fund Balances - Beginning of Year	1,786,761	1,786,761	1,786,761	0
Prior Year Encumbrances Appropriated	143,889	143,889	143,889	0
Fund Balances - End of Year	<u>\$ 1,592,584</u>	<u>\$ 143,889</u>	<u>\$ 2,036,789</u>	<u>\$ (1,892,900)</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Fund Net Assets - Cash Basis -
Proprietary Funds
June 30, 2005

	<u>Business - Type</u> <u>Activity</u>
	<u>Enterprise</u>
Assets	
Cash and Cash Equivalents	<u>\$ 15,957</u>
 <i>Total Assets</i>	 <u><u>\$ 15,957</u></u>
 Net Assets	
Unrestricted	<u>\$ 15,957</u>
 <i>Total Net Assets</i>	 <u><u>\$ 15,957</u></u>

See accompanying notes to the basic financial statements.

Allen East Local School District
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis -
Proprietary Funds
For the Year Ended June 30, 2005*

	Business-Type Activity
	Enterprise
Operating Receipts	
Food Services	\$ 247,549
Charges for Services	39,769
	287,318
Operating Disbursements	
Salaries	117,311
Fringe Benefits	79,049
Purchased Services	1,382
Materials and Supplies	165,699
	363,441
<i>Total Operating Receipts</i>	287,318
<i>Total Operating Expenses</i>	363,441
<i>Operating Loss</i>	(76,123)
Non-Operating Receipts	
Federal and State Subsidies	65,246
Interest	32
Operating Transfers - In	10,000
	75,278
<i>Total Non-Operating Receipts</i>	75,278
<i>Change in Net Assets</i>	(845)
<i>Net Assets - Beginning of Year</i>	16,802
<i>Net Assets - End of Year</i>	\$ 15,957

See accompanying notes to the basic financial statements.

Allen East Local School District
Statement of Fiduciary Net Assets - Cash Basis -
Fiduciary Funds
June 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity Pooled in Cash and Cash Equivalents	<u>\$ 2,197</u>	<u>\$ 35,347</u>
<i>Total Assets</i>	<u><u>\$ 2,197</u></u>	<u><u>\$ 35,347</u></u>
Net Assets		
Unrestricted	<u>\$ 2,197</u>	<u>\$ 35,347</u>
<i>Total Net Assets</i>	<u><u>\$ 2,197</u></u>	<u><u>\$ 35,347</u></u>

See accompanying notes to the basic financial statements.

Allen East Local School District
*Statement of Changes in Fiduciary Net Assets - Cash Basis -
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005*

	<u>Private Purpose Trust</u>
Additions	
Investment Income	<u>\$ 29</u>
Total Additions	<u>29</u>
<i>Change in Net Assets</i>	29
<i>Net Assets - Beginning of Year</i>	<u>2,168</u>
<i>Net Assets - End of Year</i>	<u>\$ 2,197</u>

See accompanying notes to the basic financial statements.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District consists of three small communities and surrounding rural areas within Allen County. The School District is the 470th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 41 non-certificated employees and 75 certificated full-time teaching personnel who provide services to 1,098 students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure 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 Allen East Local School District, this includes general operations, food service, and student related activities of the School District. There are no component units.

The School District is associated with three organizations which are defined as jointly governed organizations, and an insurance purchasing pool. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary disbursements result from encumbrances outstanding at the beginning and end of the fiscal year.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School district. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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. The focus of governmental and enterprise fund/business type activity financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets or fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental fund:

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
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Debt Service Fund	This fund accounts for receipts to be used for the retirement of the School District's general obligation debt.
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ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

OSFC Local/State Share Fund This fund accounts for the specific receipts to be used for the new school building project.

OSFC Building Fund This fund accounts for the specific receipts to be used for road and utility improvements, bus garage, athletic field and additional miscellaneous capital projects.

Proprietary Fund/Business-Type Activities

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The School District's proprietary fund accounts for the uniform school supplies and lunch room funds.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust funds account for 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 include various student-managed activities.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function of each fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected receipt of each fund. Prior to June 30, the School District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipt are identified by the School District Treasurer.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of disbursements, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year disbursements for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents (continued)

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

E. Property, Plant and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Long-Term Debt

Under Ohio law, a debt service fund must be created and used for the payment of tax and receipt anticipation notes. Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

H. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant money is received.

I. Interfund Transactions

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recording as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements/expenses in the reimbursing fund and a reduction in disbursements/expense in the reimbursed fund.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

The School District records reservations for portions of fund equity which are legally segregated for 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 are established for encumbrances.

K. Receipts, Disbursements, and Expenses

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District’s taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, operating and capital grants, contributions and interest.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Operating Receipts and Expenses

Operating receipts and expenses for proprietary funds result from providing services. They also include all receipts and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “Deposit and Investment Risk Disclosure”. GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District’s financial statements.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States treasury notes, bills, bonds, or other obligations 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 (STAR Ohio);
7. Certain bankers' 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School district, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of School District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the District's deposits was (\$15,071) and the bank balance was \$299,641. Of the bank balance, \$200,000 was covered by federal depository insurance and \$99,641 was collateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at carrying value. As of June 30, 2005, the district had the following investments:

	<u>Carrying Value</u>	Investment Maturities (in months)	
		<u>0-6</u>	<u>6-12</u>
Federal Home Loan Banks	\$ 4,503,169	\$ 4,503,169	\$ 0
Federal National Mortgage Corp	702,525	702,525	0
Federal National Mortgage Association Notes	2,498,750	0	2,498,750
Govt & Agency Mutual Funds	1,078,815	1,078,815	0
STAR Ohio	2,190,725	2,190,725	0
STAR Ohio – OSFC	<u>6,353,593</u>	<u>6,353,593</u>	<u>0</u>
 Total Carrying Value	 <u>\$ 17,327,577</u>	 <u>\$ 14,828,827</u>	 <u>\$ 2,498,750</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the District.

Credit Risk

The District's investments at June 30, 2005 in Star Ohio, FHLB, FNMC and FNMA Notes are rated AAA by Standard & Poor's.

Concentration of Credit Risk

The District places no limit on the amount the district may invest in any one issuer. More than 5 percent of the District's investments are in Mutual Funds, FHLB, FNMC, and FNMA Notes. These investments are 6.23%, 25.99%, 4.05%, and 14.4%, respectively, of the District's total investments for the amounts listed above.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are at various percentages of true 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.

Tangible personal property taxes paid 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.

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

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

	2004 Second-Half Collections		2005 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$78,432,310	89%	\$80,119,350	88%
Public Utility	4,758,930	5	5,139,520	6
Tangible Personal Property	<u>5,134,390</u>	<u>6</u>	<u>5,349,878</u>	<u>6</u>
Total Assessed Value	<u>\$88,325,630</u>	<u>100%</u>	<u>\$90,608,748</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$34.17		\$39.97	

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, the School District contracted with O'Connor McLaughlin Insurance Company for property insurance and Harcum-Hyre Insurance for general liability insurance.

Professional liability and vehicles are protected by the Nationwide Insurance Company. Settled claims have not exceeded the commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 6 - RISK MANAGEMENT (continued)

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Allen East Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans: a Defined Benefit (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 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. 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. If an active Plan member should die before retirement, the eligible spouse and dependents may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$350,283, \$347,738, and \$320,479, respectively; 92.76 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$48,321 represents the unpaid contribution for fiscal year 2005.

B. School Employees Retirement System

The Allen East Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer deferred benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 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 rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal years 2004 and 2003, 5.46 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$47,406, \$42,430, and \$42,329, respectively; 89.0 percent has been contributed for fiscal year 2005, and 100 percent for the fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, four members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid. The fifth Board member has elected the State Teachers Retirement System.

NOTE 8 - POST EMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 - POST EMPLOYMENT BENEFITS (continued)

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004 (the latest information available). 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. 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.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

At June 30, 2004 (the latest information available), the 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 2005, the minimum pay has been established at \$25,400. 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 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 (the latest information available), SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers 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 240 days for certified personnel and up to 240 days for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days for certified employees and 46 days for classified employees.

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Interest Rate	Principal Outstanding 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005
<i>General Obligations</i>					
Bond Anticipation Note 2004 Bond Issue	1.75%	\$ 8,500,000	\$ 0	\$ 8,500,000	\$ 0
Current Interest Bonds	2.50-4.60%	0	8,310,000	0	8,310,000
Capital Appreciation Bonds	13.77%	0	189,992	0	189,992
Accretion of Interest		0	24,840	0	24,840
Total General Obligations		\$8,500,000	\$8,524,832	\$8,500,000	\$8,524,832

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

Bond Anticipation Note – Bond anticipation notes represent short-term amounts borrowed by the School District to pay for improvements in anticipation of issuing new bonds and repay the current note with the proceeds. In April 2004, the School District borrowed \$8,500,000 for various purposes: \$6,270,000 for the purpose of the School District’s local share of school construction under the Ohio Classroom Facilities Assistance Program, and \$2,230,000 for the purpose of constructing utility and road improvements, a bus facility and athletic fields, and related furnishings and equipment. This note was repaid in full in Fiscal Year 2005.

Future principal and interest requirements as of June 30, 2005 are as follows:

Fiscal Year Ending June 30,	Current Interest Bonds	Capital Appreciation Bonds	Interest/ Accretion	Total
2006	\$ 215,000	\$ 0	\$ 376,466	\$ 591,466
2007	225,000	0	371,091	596,091
2008	230,000	0	365,466	595,466
2009	230,000	0	359,716	589,716
2010	240,000	0	352,816	592,816
2011-2015	1,045,000	71,925	1,846,425	2,963,350
2016-2020	895,000	118,067	1,947,873	2,960,940
2021-2025	325,000	0	1,162,875	1,487,875
2026-2030	1,900,000	0	637,325	2,537,325
2031-2032	3,005,000	0	83,250	3,088,250
	<u>\$ 8,310,000</u>	<u>\$ 189,992</u>	<u>\$ 7,503,303</u>	<u>\$ 16,003,295</u>

2004 Various Purpose General Obligation Bonds - In July 2004, the School District issued \$8,499,992 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. Current interest term bonds and current interest serial bonds in the amount of \$3,405,000 and \$4,905,000, respectively, were issued July 1, 2004. Capital appreciation bonds were issued July 29, 2004 in the amount of \$189,992. The bonds are being retired from the Bond Retirement debt service fund.

The current interest term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2021	\$340,000
2022	360,000
2023	380,000
2024	400,000

Unless previously redeemed, the remaining principal amount of \$420,000 will mature at stated maturity (December 1, 2025).

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

The current interest term bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2026	\$340,000
2027	360,000
2028	380,000
2029	400,000
2030	535,000

Unless previously redeemed, the remaining principal amount of \$565,000 will mature at stated maturity (December 1, 2031).

The capital appreciation bonds will mature in fiscal years 2014 through 2016 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$855,000. For fiscal year 2005, \$24,840 was accreted for total bond value of \$214,832.

NOTE 11 - STATUTORY RESERVES

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Total</u>
Balance 6/30/2004 Carry Over	\$ (181,591)	\$ 0	\$ (181,591)
Required Set-Aside	152,998	152,998	305,996
Qualifying Disbursements	<u>(209,403)</u>	<u>(361,961)</u>	<u>(571,364)</u>
Total	<u>\$(237,996)</u>	<u>\$(208,963)</u>	<u>\$(446,959)</u>
Excess Disbursements Available for Carry-over to Subsequent Year	<u>\$(237,996)</u>	<u>\$ 0</u>	<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks.

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (NOACSC) is a jointly governed organization among forty-seven school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each of the governments of these schools supports NOACSC based upon a per pupil charge dependent upon the software package utilized.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS (continued)

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent, the two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation of the Board. Financial information can be obtained by contacting Michael Wildermuth, who serves as Director, at 645 South Main Street, Lima, Ohio 45804.

Apollo Career Center - The Apollo Career 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 participating school district's elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Career Center, Greg Bukowski, who serves as Treasurer, at 3325 Shawnee Road, Lima, Ohio 45806.

NOTE 13 - GROUP PURCHASING POOL

A. Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Plan

The School District participates in a group rating plan (GRP) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the Northwest Ohio Area Computer Service Cooperative as a group insurance purchasing pool. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to cover the costs of administering the program.

B. Allen County Schools Health Benefits Plan

The District participates in the Allen County Schools Health Benefits Plan (Plan), a public entity shared risk pool consisting of the school districts within Allen County and the Allen County Educational Service Center. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Receipt Code and provides medical and dental benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Directors which advises the Trustee, Allen County Educational Service Center, concerning aspects of the administration of the Plan.

Each school district decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Brian Rockhold, who serves as Chairman, 204 North Main Street, Lima, Ohio 45801.

NOTE 14 - ACCOUNTABILITY

At June 30, 2005, the Special Revenue, Student Reading Intervention 2005 had a deficit cash fund balance in the amount of \$1,998.

The General Fund is liable for any deficit in the District's funds and provides operating transfers when cash is required. The deficit fund balance was created at June 30, 2005, as a result of late disbursements from the grant authorities.

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 15 - OPERATING LEASES

The District is obligated under an operating lease agreement with Perry Corporation for copiers. This agreement does not give rise to property rights. The estimated future lease payments are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2006	\$ 38,740
2007	38,740
2008	<u>11,300</u>
	<u>\$ 88,780</u>

NOTE 16 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. State School Funding Decision

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

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

NOTE 17 – CONTRACTUAL COMMITMENTS

At June 30, 2005 the District had the following outstanding contractual commitments for the building construction project:

Contractor/Vendor	Amount	Description
Fanning and Howey	\$605,920	Design K-12 Facility

We're Ready For Your Future

September 16, 2005

Board of Education
Allen East Local School District
Harrod, Ohio 45850

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen East Local School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 16, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005-01 and 2005-02.

This report is intended solely for the information and use of Board of Education and management and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

ALLEN EAST LOCAL SCHOOL DISTRICT

Schedule of Findings

June 30, 2005

1. Summary of Auditor's Results

(d) (1) (I)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS
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GAAP Reporting 2005-01 (repeat from FY04)

Ohio Admin. Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2005, the District prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying basic financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Appropriations in Excess of Estimated Revenues 2005-02

Ohio Revised Code Section 5705.39 states that the total appropriation from each fund shall not exceed the total estimated revenue. Allen East Local School District had one fund in which appropriations exceeded estimated resources:

<u>Fund</u>	<u>Description</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
010	Classroom Facilities	\$14,484,997	\$8,659,631	\$5,825,366

ALLEN EAST LOCAL SCHOOL DISTRICT

**Corrective Action Plan
Year Ended June 30, 2005**

Finding 2004-01 – Ohio Administrative Code Section 117-2-03

Ohio Admin. Code Section requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2005, the District prepared its basic financial statements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Corrective Action Taken or Planned

The District plans to continue to report on a cash basis.



**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

ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**