



**Auditor of State
Betty Montgomery**

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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CLINTON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

East Clinton Local School District
Clinton County
97 College Street
Lees Creek, Ohio 45138

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Clinton Local School District, Clinton 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Clinton Local School District, Clinton County, Ohio, as of June 30, 2005, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

April 4, 2006

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

As management of the East Clinton Local School District (the School District), we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the School District's performance.

This discussion and analysis of East Clinton Local School District's financial performance is intended to serve as an introduction to the School District's basic financial statements, and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their *Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government"* issued June 1999.

Financial Highlights

- In total, net assets decreased \$966,966. This represents a 5.5 percent change from 2004.
- General revenues accounted for \$9,592,362 or 84 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants, contributions and interest, and capital grants and contributions accounted for \$1,819,489, or 16 percent of total revenues of \$11,411,851.
- The School District had \$12,378,817 in expenses related to governmental activities; only \$1,819,489 of these expenses were offset by program specific charges for services and sales, operating grants, contributions and interest, and capital grants and contributions.
- The assets of the School District exceed its liabilities at June 30, 2005 by \$16,395,803. The School District had a negative \$648,968 in unrestricted assets.

Using the Basic Financial Statements

This report consists of a series of financial statements and the notes to the basic financial statements. These statements are organized so the reader can understand East Clinton Local School District as a whole, an entire operating entity.

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the School District as a whole, and present 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 major funds, with all other non-major funds presented in total in one column. The major funds for the East Clinton Local School District are the General, Debt Service and Permanent Improvement Funds.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets and liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

These two statements report the School District's net assets and changes in those assets. The 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. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the Governmental Fund Balance Sheet, and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

Fiduciary Funds - The School District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1, on the following page, provides a summary of the School District's net assets for 2005 and 2004:

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

Table 1
Net Assets
Governmental Activities

	2005	2004
Assets		
Current and Other Assets	\$6,449,744	\$7,444,271
Capital Assets	18,003,566	18,458,913
Total Assets	<u>24,453,310</u>	<u>25,903,184</u>
Liabilities		
Long-Term Liabilities	3,141,073	3,337,803
Other Liabilities	4,916,434	5,202,612
Total Liabilities	<u>8,057,507</u>	<u>8,540,415</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	15,633,066	15,897,998
Restricted	1,411,705	1,294,985
Unrestricted (Deficit)	(648,968)	169,786
Total Net Assets	<u>\$16,395,803</u>	<u>\$17,362,769</u>

Net assets decreased by \$966,966. This was due primarily to a decrease in State funding received during the year, combined with a significant decrease in taxes receivable of \$361,781, as the School District's emergency tax levy expired after the first half of the fiscal year. Also, capital assets decreased as a result of depreciation expense for the year. These changes in assets were offset by decreases in accrued wages and benefits of \$112,567. However, this decrease in liabilities was not sufficient to offset the decreases in assets, especially when combined with expenses that remained consistent with the prior fiscal year.

Table 2, on the following page, shows the highlights of the School District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as charges for services and sales, restricted grants, contributions and interest. General Revenues include taxes, unrestricted grants, such as State foundation support, unrestricted gifts and donations, unrestricted investment earnings and miscellaneous revenue.

East Clinton Local School District
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Unaudited

Table 2
Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program Revenues:		
Charges for Services and Sales	\$417,564	\$471,544
Operating Grants, Contributions and Interest	1,375,837	1,234,971
Capital Grants and Contributions	26,088	271,784
Total Program Revenues	<u>1,819,489</u>	<u>1,978,299</u>
General Revenues:		
Property Taxes	3,646,171	3,939,945
Grants and Entitlements not Restricted to Specific Programs	5,679,642	6,005,608
Gifts and Donations	18,167	0
Investment Earnings	58,520	13,158
Miscellaneous	189,862	71,801
Total General Revenues	<u>9,592,362</u>	<u>10,030,512</u>
Total Revenues	<u>11,411,851</u>	<u>12,008,811</u>
Program Expenses		
Instruction:		
Regular	4,998,244	4,999,445
Special	1,212,169	1,146,197
Vocational	113,640	161,423
Support Services:		
Pupils	422,443	372,085
Instructional Staff	1,079,069	896,135
Board of Education	27,601	34,360
Administration	1,164,737	1,186,306
Fiscal	273,199	232,650
Business	7,661	6,093
Operation and Maintenance of Plant	1,338,729	1,692,905
Pupil Transportation	731,052	909,389
Central	37,439	30,768
Operation of Non-Instructional Services:		
Other	0	2,762
Food Service Operations	528,426	470,062
Extracurricular Activities	334,237	289,485
Interest and Fiscal Charges	110,171	153,742
Total Expenses	<u>12,378,817</u>	<u>12,583,807</u>
Decrease in Net Assets	(966,966)	(574,996)
Net Assets Beginning of Year	<u>17,362,769</u>	<u>17,937,765</u>
Net Assets End of Year	<u>\$16,395,803</u>	<u>\$17,362,769</u>

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Governmental Activities

Capital grants and contributions decreased by \$245,696. In fiscal year 2004, the School District received a one-time grant from the Federal Emergency Management Association in the amount of \$204,988 for emergency repairs. Property tax revenues decreased by \$293,744 due to a decrease in property tax advances available, related to the reduction in tax rates on future tax collections upon the expiration of the emergency tax levy. Grants and entitlements not restricted to specific programs decreased by \$325,966 due to our tax valuation increasing substantially after the addition of personal property taxes which had previously been abated.

Support services had the biggest changes in expenses from 2004 to 2005. Instructional Staff increased by \$182,934, due to employing two technology employees for one year and an increase in special education aides, while operation and maintenance of plant decreased by \$354,176. Operation and maintenance of plant decreased due to a decrease in maintenance and repairs expenses, as in 2004, several major repairs were performed and paid for. In 2004, two buses were purchased. There were no buses purchased during 2005.

Unrestricted Grants and Entitlements made up 59 percent of general revenues for governmental activities of the East Clinton Local School District for fiscal year 2005.

Instruction comprises 51 percent of governmental program expenses. Support services expenses make up 41 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants, contributions and interest offsetting those costs. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted state aid (State Foundation) or local taxes. The difference in these two columns would represent restricted grants, charges for services, fees and donations.

Table 3
Governmental Activities

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Instruction	\$6,324,053	\$6,307,065	(\$5,357,518)	(\$5,419,687)
Support Services	5,081,930	5,360,691	(4,785,903)	(4,767,239)
Operation of Non-				
Instructional Services	528,426	472,824	(67,945)	(45,871)
Extracurricular Activities	334,237	289,485	(237,791)	(218,969)
Interest and Fiscal Charges	110,171	153,742	(110,171)	(153,742)
Total Expenses	<u>\$12,378,817</u>	<u>\$12,583,807</u>	<u>(\$10,559,328)</u>	<u>(\$10,605,508)</u>

*East Clinton Local School District
Management's Discussion and Analysis
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Unaudited*

The School District's Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,411,992 and expenditures of \$12,219,508. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$979,807. The General Fund balance went down due to decreases in tax revenues upon the expiration of the School District's emergency levy and decreases in State foundation, with no decrease in staff and salaries to offset the reduction in revenue.

The Debt Service Fund balance increased by \$39,862. In 2004, the School District recognized a premium on debt issuance, as well as bond issuance costs. The lack of these two items in 2005, offset against a decrease in property taxes and intergovernmental revenues contributed to the increase in fund balance.

The Permanent Improvement Fund balance increased by \$121,916, which is due to the start of the collection of property taxes on the School District's new permanent improvement levy.

General Fund - Budget 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. During the course of fiscal year 2005, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

The School District's ending unobligated cash balance was \$186,542 above the final budgeted amount in the General Fund.

For the General Fund, actual revenue was \$9,417,280 with original budget estimates of \$9,932,314, a difference of five percent, and with final budget estimates of \$9,402,143, a difference of less than one percent. The five percent difference between original budget estimates and budget basis revenue was due to a decrease in State foundation funding which was substantially different than the State's original estimate, which was the result of the State using projected figures instead of actual figures which was corrected later in the year.

Capital Assets and Debt Administration

Capital Assets

The East Clinton Local School District's investment in capital assets as of June 30, 2005 was \$18,003,566. This investment in capital assets includes land, buildings and improvements, furniture, fixtures and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to 2004:

East Clinton Local School District
Management's Discussion and Analysis
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Unaudited

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

	2005	2004
Land	\$339,476	\$339,476
Buildings and Improvements	16,177,885	16,607,809
Furniture, Fixtures and Equipment	897,446	1,046,756
Vehicles	588,759	464,872
Totals	\$18,003,566	\$18,458,913

Net capital assets decreased \$455,347 primarily as a result of the current year depreciation expense plus the disposal of assets exceeding the capital asset additions.

For more information on capital assets, refer to note 9 of the basic financial statements.

Debt

At June 30, 2005 the School District had \$2,741,005 in bonds outstanding, with \$230,000 due within one year. Table 5, summarizes outstanding bonds:

Table 5
Outstanding Debt, at June 30,

	2005	2004
2003 - School Improvement Refunding Bonds	\$2,684,998	\$2,899,998
Accretion on Capital Appreciation Bonds	56,007	21,210
Totals	\$2,741,005	\$2,921,208

School Improvement Refunding Bonds 2003

The School District issued \$2,899,998 in general obligation bonds for the purpose of refunding the 1995 School Improvement Bonds. The bonds were issued for a fourteen year period, with final maturity in December 2017.

The School District's voted legal debt margin was \$9,996,190 with an unvoted debt margin of \$135,623 at June 30, 2005.

For more information on debt, refer to note 14 of the basic financial statements.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

District Challenges for the Future

As predicted in last year's Management's Discussion and Analysis, 2006 is proving to be a challenge financially. We did make cuts in staff—all cuts were made through resignations and retirements. We are being conservative with our purchases, student trips and professional meetings. H.B. 66 makes the financial picture even more challenging for 2006 and future years-- it has made it very difficult to forecast beyond 2006 accurately.

School funding in Ohio is still the School District's biggest challenge as we are heavily dependent on State funding. While the Ohio Supreme Court ruled in March 1997 that Ohio's funding of public schools is unconstitutional and needs to be restructured, subsequent Court reviews of the legislature's responses have found the State legislature has not adequately responded to the specifics of the ruling. H. B. 66, passed in June 2005, has not helped the School District's financial future. Two of the more major issues with H.B. 66 are the phase out of the cost of doing business factor and the phase out of personal tangible property tax, with no long-term replacement revenue. Thus, many school districts believe Ohio's public schools continue to be funded through an inadequate and inequitable system.

The State legislature has created other opportunities for school children in Ohio that have caused more funding concerns for Ohio's public schools. The liberalization of home schooling requirements, post-secondary options, intra-district open enrollment, and community school districts have created additional competition for the limited funding available for education in Ohio.

The projection of the School District's student enrollment has risen and fallen. These fluctuations make it very difficult to forecast an accurate financial picture of the School District. The transient nature of the School District's residents and students choosing one of the above mentioned alternatives to public education makes estimating the number of students to be funded through the school foundation program difficult. The School District had experienced a decline in enrollment for several years; however, in the last few years (including 2006) we have experienced a slight gain each year.

The School District continues to demonstrate fiscal responsibility by doing whatever is necessary to keep the School District in the "black." East Clinton Local School District is proud to have an "effective" rating for the fourth consecutive year on the State mandated Report Card. Parents, students and staff are to be commended for the commitment of a quality education for the students of the School District. The Board and administrators are hopeful that public school funding in Ohio is a priority for Ohio's political leaders, and that it will permit East Clinton Local School District to continue to provide a quality education for its students.

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 information contact Linda Carson, Treasurer, at East Clinton Local School District, 97 College Street, Lees Creek, OH 45138.

East Clinton Local School District
Clinton County
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,372,335
Accrued Interest Receivable	12,530
Accounts Receivable	23,017
Materials and Supplies Inventory	14,297
Intergovernmental Receivable	119,079
Taxes Receivable	3,847,154
Deferred Charges	61,332
Capital Assets:	
Land	339,476
Depreciable Capital Assets, Net	17,664,090
<i>Total Assets</i>	24,453,310
Liabilities	
Accounts Payable	20,683
Accrued Wages and Benefits Payable	1,031,803
Intergovernmental Payable	343,081
Deferred Revenue	3,505,591
Matured Compensated Absences Payable	9,006
Accrued Interest Payable	6,270
Long-Term Liabilities:	
Due Within One Year	249,860
Due in More Than One Year	2,891,213
<i>Total Liabilities</i>	8,057,507
Net Assets	
Invested in Capital Assets, Net of Related Debt	15,633,066
Restricted for:	
Capital Projects	553,323
Debt Service	113,469
Other Purposes	408,597
Library Materials and Services:	
Expendable	36,316
Nonexpendable	300,000
Unrestricted (Deficit)	(648,968)
<i>Total Net Assets</i>	\$16,395,803

See Accompanying Notes to the Basic Financial Statements

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

	Program Revenues			Capital Grants and Contributions	Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$4,998,244	\$21,187	\$154,226	\$0	(\$4,822,831)
Special	1,212,169	0	764,751	0	(447,418)
Vocational	113,640	0	26,371	0	(87,269)
Support Services:					
Pupils	422,443	0	7,168	0	(415,275)
Instructional Staff	1,079,069	0	212,383	0	(866,686)
Board of Education	27,601	0	0	0	(27,601)
Administration	1,164,737	0	19,980	0	(1,144,757)
Fiscal	273,199	0	0	0	(273,199)
Business	7,661	0	0	0	(7,661)
Operation and Maintenance of Plant	1,338,729	0	0	0	(1,338,729)
Pupil Transportation	731,052	0	18,408	21,088	(691,556)
Central	37,439	0	17,000	0	(20,439)
Operation of Non-Instructional Services:					
Food Service Operations	528,426	304,931	155,550	0	(67,945)
Extracurricular Activities	334,237	91,446	0	5,000	(237,791)
Interest and Fiscal Charges	110,171	0	0	0	(110,171)
Total Governmental Activities	\$12,378,817	\$417,564	\$1,375,837	\$26,088	(10,559,328)
General Revenues:					
Property Taxes Levied for:					
					3,048,968
					302,921
					294,282
Grants and Entitlements not					
					5,679,642
					18,167
					58,520
					189,862
					9,592,362
					(966,966)
					17,362,769
					\$16,395,803

See Accompanying Notes to the Basic Financial Statements

East Clinton Local School District
Clinton County
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service Fund	Permanent Improvement Fund	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$545,917	\$453,677	\$513,903	\$858,838	\$2,372,335
Materials and Supplies Inventory	0	0	0	14,297	14,297
Accrued Interest Receivable	10,060	0	0	2,470	12,530
Accounts Receivable	23,017	0	0	0	23,017
Interfund Receivable	64,615	0	0	0	64,615
Intergovernmental Receivable	0	0	0	119,079	119,079
Property Taxes Receivable	3,107,755	335,625	335,200	68,574	3,847,154
<i>Total Assets</i>	<u>\$3,751,364</u>	<u>\$789,302</u>	<u>\$849,103</u>	<u>\$1,063,258</u>	<u>\$6,453,027</u>
Liabilities					
Accounts Payable	\$7,182	\$0	\$0	\$13,501	\$20,683
Accrued Wages and Benefits Payable	932,508	0	0	99,295	1,031,803
Matured Compensated Absences Payable	9,006	0	0	0	9,006
Interfund Payable	0	0	0	64,615	64,615
Intergovernmental Payable	310,659	0	0	32,422	343,081
Deferred Revenue	2,928,669	314,205	308,436	116,765	3,668,075
<i>Total Liabilities</i>	<u>4,188,024</u>	<u>314,205</u>	<u>308,436</u>	<u>326,598</u>	<u>5,137,263</u>
Fund Balances					
Reserved for Encumbrances	41,446	0	36,365	69,623	147,434
Reserved for Property Taxes	179,086	21,420	26,764	4,348	231,618
Reserved for Library Materials and Services	0	0	0	300,000	300,000
Unreserved:					
Undesignated, Reported in:					
General Fund	(657,192)	0	0	0	(657,192)
Special Revenue Funds	0	0	0	326,373	326,373
Debt Service Fund	0	453,677	0	0	453,677
Capital Projects Funds	0	0	477,538	0	477,538
Permanent Fund	0	0	0	36,316	36,316
<i>Total Fund Balances (Deficit)</i>	<u>(436,660)</u>	<u>475,097</u>	<u>540,667</u>	<u>736,660</u>	<u>1,315,764</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,751,364</u>	<u>\$789,302</u>	<u>\$849,103</u>	<u>\$1,063,258</u>	<u>\$6,453,027</u>

See Accompanying Notes to the Basic Financial Statements

East Clinton Local School District
Clinton County

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances \$1,315,764

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	339,476	
Other capital assets	27,467,013	
Accumulated depreciation	<u>(9,802,923)</u>	
Total capital assets		18,003,566

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Taxes	109,945	
Intergovernmental	<u>52,539</u>	
		162,484

Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis. 61,332

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(2,684,998)	
Accretion on capital appreciation bonds	(56,007)	
Premium on debt issue	(309,480)	
Deferred Amount on Refunding	253,166	
Accrued interest on bonds	(6,270)	
Compensated absences	<u>(343,754)</u>	
Total liabilities		<u>(3,147,343)</u>

Net Assets of Governmental Activities \$16,395,803

See Accompanying Notes to the Basic Financial Statements

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

	General	Bond Retirement Fund	Permanent Improvement Fund	All Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$3,107,286	\$308,729	\$219,628	\$63,208	\$3,698,851
Intergovernmental	6,068,415	28,780	18,069	897,846	7,013,110
Interest	58,520	0	0	10,918	69,438
Tuition and Fees	20,737	0	0	0	20,737
Rent	450	0	0	0	450
Extracurricular Activities	0	0	0	91,446	91,446
Gifts and Donations	23,167	0	0	0	23,167
Customer Sales and Services	0	0	0	304,931	304,931
Miscellaneous	89,856	529	0	99,477	189,862
<i>Total Revenues</i>	<u>9,368,431</u>	<u>338,038</u>	<u>237,697</u>	<u>1,467,826</u>	<u>11,411,992</u>
Expenditures					
Current:					
Instruction:					
Regular	4,493,108	0	0	148,831	4,641,939
Special	799,522	0	0	335,452	1,134,974
Vocational	124,400	0	0	15,856	140,256
Support Services:					
Pupils	404,863	0	0	20,810	425,673
Instructional Staff	871,269	0	0	202,221	1,073,490
Board of Education	27,601	0	0	0	27,601
Administration	1,003,348	0	0	115,052	1,118,400
Fiscal	297,670	8,944	2,464	4,915	313,993
Business	7,661	0	0	0	7,661
Operation and Maintenance of Plant	1,225,982	0	84,989	35,438	1,346,409
Pupil Transportation	868,127	0	28,328	6,085	902,540
Central	13,723	0	0	21,616	35,339
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	473,426	473,426
Extracurricular Activities	210,964	0	0	77,611	288,575
Debt Service					
Principal Retirement	0	215,000	0	0	215,000
Interest and Fiscal Charges	0	74,232	0	0	74,232
<i>Total Expenditures</i>	<u>10,348,238</u>	<u>298,176</u>	<u>115,781</u>	<u>1,457,313</u>	<u>12,219,508</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(979,807)	39,862	121,916	10,513	(807,516)
<i>Fund Balances at Beginning of Year</i>	<u>543,147</u>	<u>435,235</u>	<u>418,751</u>	<u>726,147</u>	<u>2,123,280</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>(\$436,660)</u>	<u>\$475,097</u>	<u>\$540,667</u>	<u>\$736,660</u>	<u>\$1,315,764</u>

See Accompanying Notes to the Basic Financial Statements

East Clinton Local School District
Clinton County

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds (\$807,516)

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	449,174	
Depreciation expense	(844,245)	
Excess of depreciation expense over capital outlay	(395,071)	(395,071)

When capital assets are disposed of, the cost of the capital assets is removed from the capital asset account in the Statement of Net Assets, resulting in a loss on sale of capital assets in the Statement of Activities:

Loss on disposal of capital assets		(60,276)
------------------------------------	--	----------

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	(52,680)	
Intergovernmental	52,539	
	(141)	(141)

Governmental funds report bond issuance costs and premiums as expenditures, whereas these amounts are deferred and amortized in in the Statement of Activities. The difference between the reacquisition price and the net carrying amount of the refunded debt is amortized in the Statement of Activities.

Amortization of bond issuance costs	(5,111)	
Amortization of deferred amount on refunding	(19,474)	
Amortization of bond premium	25,790	
	1,205	1,205

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

Principal retirement		215,000
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Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences payable	10,211	
Increase in accrued interest payable	(2,347)	
Accretion on bonds	(34,797)	
Decrease in intergovernmental payable	106,766	
Total (increase)/decrease	79,833	79,833

Change in Net Assets of Governmental Activities (\$966,966)

See Accompanying Notes to the Basic Financial Statements

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

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property Taxes	\$3,360,159	\$3,205,218	\$3,205,472	\$254
Intergovernmental	6,508,155	6,045,641	6,047,185	1,544
Interest	35,000	46,500	56,502	10,002
Tuition and Fees	14,000	20,491	20,790	299
Rent	0	450	450	0
Gifts and Donations	5,000	23,167	23,167	0
Miscellaneous	10,000	60,676	63,714	3,038
Total Revenues	9,932,314	9,402,143	9,417,280	15,137
Expenditures:				
Current:				
Instruction:				
Regular	4,595,398	4,564,487	4,544,998	19,489
Special	778,085	778,510	804,701	(26,191)
Vocational	144,445	144,445	124,070	20,375
Other	34,201	34,201	21,720	12,481
Support Services:				
Pupils	363,727	394,327	399,120	(4,793)
Instructional Staff	745,469	755,469	832,229	(76,760)
Board of Education	36,564	36,564	27,824	8,740
Administration	995,751	1,018,851	1,010,722	8,129
Fiscal	267,684	265,634	268,300	(2,666)
Business	6,475	7,975	7,661	314
Operation and Maintenance of Plant	1,256,950	1,316,950	1,219,807	97,143
Pupil Transportation	845,691	860,691	825,795	34,896
Central	16,155	24,245	13,844	10,401
Extracurricular Activities	171,435	171,435	207,111	(35,676)
Capital Outlay	6,565	7,200	7,200	0
Total Expenditures	10,264,595	10,380,984	10,315,102	65,882
Excess of Revenues Over (Under) Expenditures	(332,281)	(978,841)	(897,822)	81,019
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	2,000	355	355	0
Refund of Prior Year Expenditures	2,000	24,360	24,360	0
Advances In	0	74,000	74,000	0
Advances Out	0	0	(64,427)	(64,427)
Transfers Out	(169,950)	(169,950)	0	169,950
Total Other Financing Sources (Uses)	(165,950)	(71,235)	34,288	105,523
Net Change in Fund Balance	(498,231)	(1,050,076)	(863,534)	186,542
Fund Balance at Beginning of Year	1,278,883	1,278,883	1,278,883	0
Prior Year Encumbrances Appropriated	116,389	116,389	116,389	0
Fund Balance at End of Year	\$897,041	\$345,196	\$531,738	\$186,542

See Accompanying Notes to the Basic Financial Statements

East Clinton Local School District
Clinton County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$11,674	\$48,322
Liabilities		
Undistributed Monies	0	\$48,322
<i>Total Liabilities</i>	0	\$48,322
Net Assets		
Held in Trust for Scholarships	11,674	
<i>Total Net Assets</i>	\$11,674	

See Accompanying Notes to the Basic Financial Statements

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

	Private Purpose Trust
	Scholarship
Additions	
Interest	\$164
Deductions	
Payments in Accordance with Trust Agreements	200
<i>Change in Net Assets</i>	(36)
<i>Net Assets at Beginning of Year</i>	11,710
<i>Net Assets at End of Year</i>	\$11,674

See Accompanying Notes to the Basic Financial Statements

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

East Clinton 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 federal guidelines.

The Board controls the School District’s four instructional support facilities staffed by 87 non-certified employees, 104 teaching personnel and 7 administrative employees providing education to 1,541 students.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in eight organizations, five of which are defined as jointly governed organizations, and three as insurance purchasing pools. These organizations are the Miami Valley Educational Computer Association, the Hopewell Special Education Regional Resource Center, the Great Oaks Institute of Technology and Career Development, the Southern Buckeye Conference, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, and the Ohio School Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the East Clinton Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District fall within two categories: governmental and fiduciary.

Governmental Funds:

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

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation bond principal and interest and certain other long-term obligations when the School District is obligated for the payment.

Permanent Improvement Capital Projects Fund – This fund accounts for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, of the Ohio Revised Code.

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The private purpose trust fund accounts for college scholarship programs for students. The School District's agency fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

During fiscal year 2005, the School District's investments were limited to certificates of deposit, a money market mutual fund, iShares Lehman U.S. Treasury Inflation Protected Securities Bond Fund, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Farm Credit Bank Bonds, United States Treasury Notes, and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$58,520, which includes \$29,671 assigned from other School District funds.

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

G. Inventory

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

H. Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20-40 years
Furniture, Fixtures and Equipment	5-20 years
Vehicles	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivable” and “Interfund Payable.” These amounts are eliminated in the governmental activities columns of the Statement of Net Assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund from which the employees who have accumulated leave are paid.

K. Accrued Liabilities and Long-term Obligations

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Bonds are recognized as an expenditure and liability on the government-wide financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, student activities, and federal and State grants restricted to expenditures for specified purposes.

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

The government-wide Statement of Net Assets reports \$1,411,705 of restricted net assets, of which \$1,026,717 is restricted by enabling legislation.

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for library materials and services represents restricted contributions to the Permanent Fund.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Transactions

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

O. Bond Premiums/Issuance Costs/Compounded Interest on Capital Appreciation Bonds

Bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Capital appreciation bonds are accreted each year for the compounded interest accrued during the fiscal year. Bond premiums and the compounded interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable whereas issuance costs are recorded as deferred charges.

P. Estimates

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School District has implemented *GASB Statement No. 40, “Deposit and Investment Risk Disclosures”*, *GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”* and *GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”*.

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the School District’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2005.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin had no effect on the School District's financial statements for fiscal year 2005.

NOTE 4 – ACCOUNTABILITY

The Career Education Special Revenue Fund had a deficit fund balance of \$188 for the fiscal year ended June 30, 2005. The deficit in this fund was created by the recognition of accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. The decrease in the fair value of investments is not included on the budget basis operating statement. This amount is included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	Net Change in Fund Balance
GAAP Basis	(\$979,807)
Adjustments:	
Revenue Accruals	74,161
Expenditure Accruals	82,613
Net Decrease in Fair Value of Investments - Fiscal Year 2005	(597)
Encumbrances	(49,477)
Advances	9,573
Budget Basis	(\$863,534)

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Investments

As of June 30, 2005, the School District had the following investments, which are in an internal investment pool:

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	5-10
Goldman Sachs Financial Square Money Market Fund	\$65,509	\$65,509	\$0	\$0
iShares Lehman U.S. Treasury Inflation Protected Securities Bond Fund	29,488	0	0	29,488
Federal Home Loan Bank Bonds	1,128,276	24,735	1,103,541	0
Federal National Mortgage Association Bonds	173,438	0	148,430	25,008
Federal Farm Credit Bank Bonds	193,969	0	193,969	0
U.S. Treasury Notes	583,545	0	583,545	0
Repurchase Agreement	200,517	0	200,517	0
Total Investments	<u>\$2,374,742</u>	<u>\$90,244</u>	<u>\$2,230,002</u>	<u>\$54,496</u>

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

Credit Risk

The Goldman Sachs Financial Square Money Market Fund, iShares Lehman U.S. Treasury Inflation Protected Securities Bond Fund, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and Federal Farm Credit Bank Bonds carry ratings of AAA by Moody's. The underlying securities of the repurchase agreement are Federal Home Loan Bank Notes, which carry a credit rating of AAA by Moody's. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Notes related to the repurchase agreement are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 48 percent is invested in Federal Home Loan Bank Bonds and 25 percent is invested in U.S. Treasury Notes.

NOTE 7 - PROPERTY TAXES

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

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

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

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 7- PROPERTY TAXES (Continued)

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

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

The amount available as an advance at June 30, 2005, was \$179,086 in the General Fund, \$21,420 in the Debt Service Fund, \$26,764 in the Permanent Improvement Fund, and \$4,348 in the Classroom Facilities Maintenance Fund. The amount available as an advance at June 30, 2004, was \$277,272 in the General Fund, \$27,738 in the Debt Service Fund and \$5,648 in the Classroom Facilities Maintenance Fund.

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

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$100,033,050	71.30%	\$103,289,760	76.16%
Public Utility	6,449,070	4.60%	6,274,850	4.63%
Tangible Personal Property	33,819,932	24.10%	26,058,625	19.21%
Total Assessed Value	\$140,302,052	100.00%	\$135,623,235	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$35.98		 \$35.98	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of accrued interest, interfund, accounts, intergovernmental grants and property taxes. All receivables are considered collectible in full and will be received in one year, due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 8 – RECEIVABLES (Continued)

	Amounts
<u>Governmental Activities:</u>	
Federal Lunch Reimbursements	\$19,938
Ohio Reads Grant	4,043
Summer School Grant	12,570
Title I Grant	27,285
Drug Free Grant	1,516
Title II-A Grant	12,982
Title VI-B - Grant	33,789
Technology Grant	5,783
Preschool Disabilities Grant	1,173
Total Intergovernmental Receivables	\$119,079

NOTE 9 – CAPITAL ASSETS

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

	Balance at 6/30/04	Additions	Deductions	Balance at 6/30/05
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$339,476	\$0	\$0	\$339,476
Capital Assets Being Depreciated:				
Buildings and Improvements	22,150,344	164,172	0	22,314,516
Furniture, Fixtures and Equipment	4,305,099	35,452	(288,353)	4,052,198
Vehicles	1,055,382	249,550	(204,633)	1,100,299
Total Capital Assets Being Depreciated	27,510,825	449,174	(492,986)	27,467,013
Less Accumulated Depreciation:				
Buildings and Improvements	(5,542,535)	(594,096)	0	(6,136,631)
Furniture, Fixtures and Equipment	(3,258,343)	(147,781)	251,372	(3,154,752)
Vehicles	(590,510)	(102,368)	181,338	(511,540)
Total Accumulated Depreciation	(9,391,388)	(844,245) *	432,710	(9,802,923)
Total Capital Assets Being Depreciated, Net	18,119,437	(395,071)	(60,276)	17,664,090
Governmental Activities Capital Assets, Net	\$18,458,913	(\$395,071)	(\$60,276)	\$18,003,566

* Depreciation expense was charged to governmental functions as follows:

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 9 – CAPITAL ASSETS (Continued)

Instruction:	
Regular	\$412,375
Special	73,946
Vocational	23,388
Support Services:	
Instructional Staff	36,772
Administration	57,033
Operation and Maintenance of Plant	26,445
Pupil Transportation	103,251
Operation of Non-Instructional Services	65,245
Extracurricular Activities	45,790
Total Depreciation Expense	<u><u>\$844,245</u></u>

NOTE 10 - 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. During fiscal year 2005, the School District contracted with Smith-Feika-Minton, Inc. (Indiana Insurance) for property and fleet insurance, and the Ohio School Plan for liability insurance. The types and amounts of coverage provided at June 30, 2005 follows:

Building and Contents - replacement cost (\$2,500 deductible)	\$30,016,743
Inland Marine Coverage (\$1,000 deductible)	935,175
Valuable Papers	100,000
Automobile Liability (\$1,000 deductible)	2,000,000
Uninsured Motorist	1,000,000
General Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000

The Ohio School Plan (OSP) is an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17).

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 10 - RISK MANAGEMENT (Continued)

Settled claims have not exceeded this coverage in any of the past three fiscal years. There has been no significant change in coverage from the prior year except for building and contents which increased by 3.66 million dollars from the prior year. This increase was made to bring insurance coverage into agreement with new values calculated by an independent appraisal firm.

B. Workers' Compensation

For fiscal year 2005 the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 17). 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 workers' 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 shares 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 school districts apply for participation each year. The firm of Integrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical and Dental Benefits

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 17). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school district is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its medical and dental insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation is limited to school districts that can meet the MBP's selection criteria.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 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 School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$229,213, \$135,881 and \$195,615, respectively; 54.06 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003.

B. State Teachers Retirement System of Ohio

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 11 - PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRSOhio for the fiscal years ended June 30, 2005, 2004, and 2003, were \$663,371, \$689,474 and \$633,118, respectively; 83.56 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,994 made by the School District and \$15,211 made by the plan members.

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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, one of the School District's members of the Board of Education has elected Social Security. The School District's liability is 6.2 percent of wages paid.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$147,048 for fiscal year 2005.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. 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 was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$103,333.

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

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified and administrative employees earn ten to twenty days of vacation per 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 188 days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 47 days.

B. Insurance Benefits

The School District provides medical insurance coverage to most employees. The School District pays 90 percent of the premium for single coverage and 70 percent of the premium for family coverage through United Healthcare. The School District provides dental insurance coverage to most employees through CoreSource and pays 100 percent of the premium. Medical and dental benefits are paid through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (See Note 17).

The School District provides life insurance to all employees, except substitutes, through CoreSource, and pays 100 percent of the premium.

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/2004	Additions	Deductions	Amount Outstanding 6/30/2005	Amounts Due in One Year
<u>Governmental Activities:</u>					
2003 School Improvement					
Refunding Bonds:					
Serial Bonds 1.50%-4.10%	\$2,755,000	\$0	\$215,000	\$2,540,000	\$230,000
Capital Appreciation Bonds 16.56%	144,998	0	0	144,998	0
Accretion on Capital					
Appreciation Bonds	21,210	34,797	0	56,007	0
Premium on Debt Issuance	335,270	0	25,790	309,480	0
Deferred Amount on Refunding	(272,640)	0	(19,474)	(253,166)	0
Compensated Absences Payable	353,965	21,199	31,410	343,754	19,860
TOTAL - Governmental Activities					
Long-term Obligations	<u>\$3,337,803</u>	<u>\$55,996</u>	<u>\$252,726</u>	<u>\$3,141,073</u>	<u>\$249,860</u>

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

School Improvement Refunding Bonds 2003

On October 28, 2003, the School District issued \$2,899,998 in general obligation bonds for the purpose of advance refunding the 1995 School Improvement Bonds. Of these bonds, \$2,755,000 are serial bonds and \$144,998 are capital appreciation bonds. The bonds were issued for a fourteen year period, with final maturity in December 2017. The bonds will be retired from the Debt Service Fund.

The serial bonds maturing December 1, 2016 and December 1, 2017 are subject to optional redemption, in whole or in part on any date in any order of maturity on or after December 1, 2013 at par, which is 100% of the face value of the bonds.

The capital appreciation bonds are not subject to prior redemption. They will mature in fiscal years 2014 through 2016. The maturity amount of the capital appreciation bonds will be \$275,000 in 2014 and \$280,000 per year in 2015 and 2016. For fiscal year 2005, the capital appreciation bonds were accreted \$34,797.

The refunding resulted in a difference of \$292,114 between the net carrying amount of the debt and the acquisition price. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method.

The School District defeased the 1995 School Improvement Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments due on the old bonds. Accordingly, the trust assets and the liability of the defeased bonds are not included in the City's financial statements. As of June 30, 2005, \$2,856,019 of the bonds were unmatured and unpaid.

Compensated absences will be paid from the General, Food Service, Title VI-B, Title I, and Class Size Reduction Funds.

The School District's voted legal debt margin was \$9,996,190 with an unvoted debt margin of \$135,623 at June 30, 2005.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

School Improvement Refunding Bonds 2003

Fiscal Year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Bonds Principal	Capital Appreciation Bonds Interest	Total
2006	\$230,000	\$75,235	\$0	\$0	\$305,235
2007	230,000	70,635	0	0	300,635
2008	240,000	66,035	0	0	306,035
2009	240,000	61,235	0	0	301,235
2010	245,000	51,866	0	0	296,866
2011-2015	785,000	124,857	55,575	219,425	1,184,857
2016-2018	570,000	34,980	89,423	470,577	1,164,980
Total	<u>\$2,540,000</u>	<u>\$484,843</u>	<u>\$144,998</u>	<u>\$690,002</u>	<u>\$3,859,843</u>

NOTE 15 - INTERFUND RECEIVABLES/PAYABLES

As of June 30, 2005, interfund receivables and payables that resulted from various interfund transactions were as follows:

Payable		Receivable
		General Fund
All Other Governmental Funds		\$64,615

The amounts due to the General Fund from All Other Governmental Funds are the result of the School District moving unrestricted balances to support the operations of the Food Service Fund and programs and projects accounted for in other funds. The General Fund will be reimbursed when funds become available in the Food Service Fund and the special revenue funds.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Miami Valley Educational Computer Association

The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties. The 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 districts.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The Educational Service Center paid MVECA \$31,967 for services provided during the fiscal year. Financial information can be obtained from Norma Stewart, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

B. Hopewell Special Education Regional Resource Center

The Hopewell Special Education Regional Resource Center (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city, and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts, plus a representative from the county board of education, a representative from the Clinton-Fayette-Highland Educational Service District, a representative from the board of mental retardation and developmental disabilities, two joint vocational school superintendents and five parents of handicapped children living in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from the contracts with each of the member school districts and Federal and State grants. To obtain financial information write to Hopewell at the Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, OH 45177.

C. Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development 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 districts' elected boards, which possess its own budgetary and taxing authority. Great Oaks offers career technical programs to high school juniors and seniors of the School District. To obtain financial information write to the Great Oaks Institute of Technology and Career Development, 3254 E. Kemper Road, Cincinnati, OH 45241-1581.

D. Southern Buckeye Conference

Southern Buckeye Conference provides sporting events for the students of the participating districts. The governing board consists of each participating high school's principal. The Southern Buckeye Conference does not acquire financial resources and in no way will it cause financial stress on the School District.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 Educational Service Centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2005, the Educational Service Center paid \$13,017 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

NOTE 17 - INSURANCE PURCHASING POOLS

A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by participating members.

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 17 - INSURANCE PURCHASING POOLS (Continued)

C. Ohio School Plan

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

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The School District is no longer required to set aside funds in the budget reserve, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	(\$371,584)	\$0	\$87,029
Current Year Set-aside Requirement	208,670	208,670	0
Current Year Offsets	0	(214,197)	0
Qualifying Disbursements	(348,144)	0	(87,029)
Totals	<u>(511,058)</u>	<u>(5,527)</u>	<u>0</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Required Set-aside Balances Carried Forward to FY 2006	<u>(\$511,058)</u>	<u>\$0</u>	<u>\$0</u>

East Clinton Local School District
Notes to the Basic Financial Statements
For the Fiscal Year-Ended June 30, 2005
(Continued)

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future fiscal years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year. The School District used its budget stabilization set-aside to purchase a bus.

NOTE 19 - CONTINGENT LIABILITIES

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 effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

The School District is not currently party to legal proceedings.

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**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education.</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	\$ -	\$26,776	\$ -	\$26,776
National School Breakfast Program	05PU-2004 05PU-2005	10.553	6,017 20,786	---- ----	6,017 20,786	---- ----
National School Lunch	LLP4-2004 LLP4-2005	10.555	29,101 86,153	---- ----	29,101 86,153	---- ----
Total U.S. Department of Agriculture			142,057	26,776	142,057	26,776
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education.</i>						
Education Consolidation and Improvement Act						
Title I - FY 04	C1-S1-04	84.010	23,496	----	23,687	----
Title I - FY 05	C1-S1-05		220,552	----	215,727	----
<i>Total Title I</i>			244,048	----	239,414	----
Special Education Cluster:						
Special Education Grants to States						
Access/Cast FY03	6BSD-03	84.027	21,544	----	18,240	----
Access/Cast FY05	6BSD-05		16,271	----	26,614	----
Title VI B - FY04	6BSF-04		43,885	----	44,798	----
Title VI B - FY05	6BSF-05		202,108	----	186,251	----
Educational Handicapped Preschool						
Preschool Subsidy - FY 04	PG-S1-04	84.173	486	----	0	----
Preschool Subsidy - FY 05	PG-S1-05		4,030	----	6,136	----
<i>Total Special Education Cluster</i>			288,324	----	282,039	----
Safe and Drug Free Schools						
Drug Free Education - Subsidy - FY 04	DR-S1-05	84.186	0	----	225	----
Drug Free Education - Subsidy - FY 05			8,489	----	8,941	----
<i>Total Drug Free School Grants</i>			8,489	----	9,166	----
Innovative Educational Program Strategies						
Innovative Program Title V FY04	C2-S1-04	84.298	3,249	----	3,128	----
Innovative Program Title V FY05	C2-S1-05		3,588	----	3,554	----
<i>Total Innovative Ed</i>			6,837	----	6,682	----
Additional Programs:						
Educational Technology - FY 04	TJ-S1-05	84.318	2,109	----	2,255	----
Improving Teacher Quality - FY 04	TR-S1-04	84.367	12,206	----	7,473	----
Improving Teacher Quality - FY 05	TR-S1-05		97,078	----	102,884	----
<i>Total Additional Programs</i>			111,393	----	112,612	----
Total Department of Education			659,091	----	649,913	----
<u>U.S. OFFICE OF LIBRARY SERVICES</u>						
<i>Passed through State Library of Ohio:</i>						
State Library Program	N/A	45.310	21,142	----	0	----
Total U.S. Office of Library Services			21,142	----	0	----
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$822,290	\$26,776	\$791,970	\$26,776

The accompanying notes to this schedule are an integral part of this schedule.

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B— FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

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

East Clinton Local School District
Clinton County
97 College Street
Lees Creek, Ohio 45138

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Clinton Local School District, Clinton County, Ohio (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 April 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 4, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

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

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

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

Betty Montgomery
Auditor of State

April 4, 2006



Auditor of State Betty Montgomery

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

East Clinton Local School District
Clinton County
97 College Street
Lees Creek, Ohio 45138

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

We intend this report solely for the information and use of the District's management, elected officials, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 4, 2006

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
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)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title VI-B, Special Education Cluster - CFDA # 84.027 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**EAST CLINTON LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**