

ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN COUNTY

BASIC FINANCIAL STATEMENTS – CASH BASIS

For The Year Ended June 30, 2007



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Allen East Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 7, 2008

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**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Rea & Associates, Inc.

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We're Ready For Your Future

November 30, 2007

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District, Allen County, Ohio (the District), as of and for the year ended June 30, 2007, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District, Allen County, Ohio, as of June 30, 2007, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007 on our consideration of the Allen East Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information The Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

Allen East Local School District
Allen County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The discussion and analysis of the Allen East Local School District's ("School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- General Receipts accounted for \$7,743,462, excluding refunding bonds issued, in revenue or 38% of all receipts.
- Total program expenses were \$29,089,076.
- In total, net assets decreased \$8,606,021, mostly due to capital outlay disbursements.

Using this Annual Report

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2007, the General Fund, OSFC Local/State Share Fund, and OSFC Building Fund are by far the most significant funds.

Basis of Accounting

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

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

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the General Fund, the OSFC Building Fund, and the OSFC Local/State Share Fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 14 and 15. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. Table 1 shows fiscal year 2007 net assets as compared to fiscal year 2006. Due to the reclassification of several funds the fiscal year 2006 balances have been restated (see note 3 for further details) to make comparisons useful.

**(Table 1)
Net Assets – Cash basis**

	Governmental Activities	Governmental Activities (restated)
	2007	2006
ASSETS		
Cash & cash equivalents	\$ 9,579,236	\$ 9,083,691
Investments	<u>0</u>	<u>9,101,566</u>
Total Assets	<u>\$ 9,579,236</u>	<u>\$ 18,185,257</u>
NET ASSETS		
Restricted:		
Debt Service	\$ 312,601	\$ 99,986
Capital Projects	6,710,967	15,893,242
Permanent Fund		
Expendable	397	0
Non-Expendable	2,000	0
Other Purposes	275,470	211,113
Unrestricted	<u>2,277,801</u>	<u>1,980,916</u>
Total Net Assets	<u>\$ 9,579,236</u>	<u>\$ 18,185,257</u>

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

Table 2 shows the changes in net assets for fiscal year 2007 as compared to fiscal year 2006. Due to the reclassification of several funds the fiscal year 2006 balances have been restated (see note 3 for further details) to make comparisons useful. This will enable the reader to draw further conclusions about the School District's financial status and possibly project future problems.

**(Table 2)
Governmental Activities**

	2007	2006 (restated)
	<u>Governmental Activities</u>	<u>Governmental Activities</u>
Receipts		
<i>Program Receipts</i>		
Charges for Services	\$ 664,219	\$ 451,755
Operating Grants	728,542	716,062
Capital Grants	4,655,468	11,429,184
<i>General Receipts</i>		
Property Taxes	2,835,343	2,778,869
Grants and Entitlements	4,714,040	4,630,437
Refunding Bonds	6,691,364	0
Other	<u>194,079</u>	<u>507,878</u>
Total Receipts	20,483,055	20,514,185
<i>Program Disbursements</i>		
Instruction	4,491,676	4,432,655
Support Services	2,838,495	2,870,921
Non-Instructional	49,372	45,067
Food Service	366,572	301,945
Extracurricular	292,975	277,334
Capital Outlay	13,918,708	11,009,698
Repayment of Debt	<u>7,131,278</u>	<u>588,779</u>
Total Disbursements	<u>29,089,076</u>	<u>19,526,399</u>
Decrease in Net Assets	<u>\$ 8,606,021</u>	<u>\$ 987,786</u>

Governmental Activities

Several receipt sources fund the School District's governmental activities with the school foundation program being the largest contributor. School foundation provided \$4.6 million in fiscal year 2007. Property tax levies generated \$2.8 million in fiscal year 2007. General receipts from grants and entitlements are also a large receipt generator. With the combination of taxes and intergovernmental receipts funding 44% of expenses in governmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2007 as compared to fiscal year 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Due to the reclassification of several funds the fiscal year 2006 balances have been restated (see note 3 for further details) to make comparisons useful.

**(Table 3)
Governmental Activities**

	<u>2007</u>	Net (Receipts) Cost of Service	<u>2006</u>	Net (Receipts) Cost of Service
	<u>Total Cost of Service</u>		<u>Total Cost of Service</u>	
Instruction	\$ 4,491,676	\$ 3,975,442	\$ 4,432,655	\$ 3,943,302
Support Services:				
Pupil and Instructional Staff	645,742	454,158	647,279	467,811
Board of Education, Business, Administration, and Fiscal	965,588	959,207	935,436	935,436
Operation and Maintenance of Plant	624,032	583,796	654,588	639,719
Pupil Transportation	412,559	400,968	499,492	485,289
Central	190,574	158,822	134,126	129,126
Operation of Non-Instructional	49,372	790	45,067	2,637
Food Services	366,572	(4,847)	301,945	10,921
Extracurricular Activities	292,975	163,696	277,334	156,240
Capital Outlay	13,918,708	9,287,242	11,009,698	(402,710)
Repayment of Debt	<u>7,131,278</u>	<u>7,061,573</u>	<u>588,779</u>	<u>588,779</u>
Total	<u>\$29,089,076</u>	<u>\$23,040,847</u>	<u>\$19,526,399</u>	<u>\$ 6,956,550</u>

Instruction and student support services comprise 18% of governmental program expenses in fiscal year 2007. Fiscal and administration charges were 3% in 2007. Fiscal expenses include payments to the County Auditor(s) for administrative fees and other administrative services provided by the District. Pupil transportation and the operation/maintenance of facilities account for 2% in 2007.

The dependence upon foundation revenues for governmental activities is apparent.

General Fund Budgeting Highlights

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

During the course of fiscal year 2007, the School District amended its general fund budget to reflect changing circumstances. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

For the general fund, budget basis revenue was \$7,287,156 compared to the original budget estimates of \$7,156,100. Of this \$131,056 increase, all was attributable to a large increase in tuition and fees receipts.

General fund actual disbursements were \$1,844,858 under budgeted disbursements of \$8,910,995 for fiscal year 2007. Actual instruction, operation and maintenance of plant, and pupil transportation disbursements were significantly under budgeted disbursements. This was because there were two high-end teachers who retired mid-year that were not replaced. Also, there were two teachers replaced with full time substitute teachers who were hired at a much lower rate. There was a long-time custodian who retired mid-year and was not replaced. Normal upkeep of the buildings (floor refinishing, lockers asphalt, etc) was lax due to the anticipation of the buildings being destroyed at the end of this school year. In the area of transportation, existing staff were hired as drivers instead of new drivers so as to cut the cost for benefits.

Debt Administration

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

In April, 2007, the School District refunded the 2004 Issue's bonds that originally matured in 2017-2031 in the amount of \$6,124,996.

For further information regarding the District's debt, refer to Note 10 of the basic financial statements.

Current Issues

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

The Board of Education implemented open enrollment for fiscal year 2007 as a new receipt source. Receipts for open enrollment are expected to generate between \$150,000 to \$200,000 annually.

The Board of Education also refinanced its bond debt in May, 2007. This refinancing saved the School District over \$300,000 in interest.

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

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service.

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

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

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

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

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rhonda Zimmerly, Treasurer of Allen East Local School District, 9105 Harding Hwy., Harrod, Ohio 45850 or ae_treas@noacsc.org.

**Allen East Local School District
Allen County**

*Statement of Net Assets - Cash Basis
June 30, 2007*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 9,579,236
<i>Total Assets</i>	<u>\$ 9,579,236</u>
Net Assets	
Restricted for:	
Debt Service	\$ 312,601
Capital Outlay	6,710,967
Permanent Fund	
Expendable	397
Non-Expendable	2,000
Other Purposes	275,470
Unrestricted	<u>2,277,801</u>
<i>Total Net Assets</i>	<u>\$ 9,579,236</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County

Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2007

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	
Governmental Activities:					
Instruction:	\$	\$	\$	\$	\$
Regular	3,694,677	30,155	20,777	0	(3,643,745)
Special	481,602	0	295,873	0	(185,729)
Adult/Continuing	3,187	0	2,700	0	(487)
Other	312,210	166,729	0	0	(145,481)
Support Services:					
Pupils	465,291	30,538	151,876	0	(282,877)
Instructional Staff	180,451	0	9,170	0	(171,281)
Board of Education	39,203	0	0	0	(39,203)
Administration	660,250	0	0	0	(660,250)
Fiscal	214,329	5,629	752	0	(207,948)
Business	51,806	0	0	0	(51,806)
Operation and Maintenance of Plant	624,032	0	40,236	0	(583,796)
Pupil Transportation	412,559	0	11,591	0	(400,968)
Central	190,574	0	5,000	26,752	(158,822)
Operation of Non-Instructional Services	49,372	48,582	0	0	(790)
Operation of Food Services	366,572	252,282	119,137	0	4,847
Extracurricular Activities	292,975	127,554	1,725	0	(163,696)
Capital Outlay	13,918,708	2,750	0	4,628,716	(9,287,242)
Repayment of Debt	7,131,278	0	69,705	0	(7,061,573)
Total Governmental Activities	\$ 29,089,076	\$ 664,219	\$ 728,542	\$ 4,655,468	(23,040,847)
General Receipts					
Property Taxes Levied for:					
General Purposes					2,060,338
Debt Service					590,471
Capital Projects					143,737
Building Maintenance					40,797
Grants and Entitlements not Restricted to Specific Programs					4,714,040
Interest					138,981
Proceeds from Sale of Refunding Bonds					6,691,364
Miscellaneous					55,098
Total General Receipts					14,434,826
Change in Net Assets					(8,606,021)
Net Assets - Beginning of Year (Restated - See Note 3)					18,185,257
Net Assets - End of Year					\$ 9,579,236

See accompanying notes to the basic financial statements.
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Allen East Local School District
Allen County

Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2007

	<u>General Fund</u>	<u>OSFC Building Fund</u>	<u>OSFC Local/State Share Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,277,801	\$ 1,196,634	\$ 5,127,338	\$ 977,463	\$ 9,579,236
<i>Total Assets</i>	<u>\$ 2,277,801</u>	<u>\$ 1,196,634</u>	<u>\$ 5,127,338</u>	<u>\$ 977,463</u>	<u>\$ 9,579,236</u>
Fund Balances					
Reserved for Encumbrances	\$ 31,441	\$ 1,019,640	\$ 5,201,821	\$ 134,069	\$ 6,386,971
Reserved for Bus Purchases	0	0	0	10,897	10,897
Unreserved, Undesignated, Reported in:					
General Fund	2,246,360	0	0	0	2,246,360
Special Revenue Funds	0	0	0	241,827	241,827
Debt Service Funds	0	0	0	312,601	312,601
Capital Projects Funds	0	176,994	(74,483)	275,672	378,183
Permanent Funds	0	0	0	2,397	2,397
<i>Total Fund Balances</i>	<u>\$ 2,277,801</u>	<u>\$ 1,196,634</u>	<u>\$ 5,127,338</u>	<u>\$ 977,463</u>	<u>\$ 9,579,236</u>

See accompanying notes to the basic financial statements.

**Allen East Local School District
Allen County**

*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2007*

	General Fund	OSFC Building Fund	OSFC Local/State Share Fund	All Other Governmental Funds	Total Governmental Funds
Receipts					
Property and Other Local Taxes	\$ 2,071,826	\$ 0	\$ 0	\$ 778,953	\$ 2,850,779
Intergovernmental	4,881,697	0	4,008,001	540,029	9,429,727
Interest	138,981	165,315	455,401	602	760,299
Tuition and Fees	196,884	0	0	50,053	246,937
Rent	5,629	0	0	0	5,629
Extracurricular Activities	0	1,000	1,750	154,332	157,082
Gifts and Donations	9,730	0	0	48,030	57,760
Customer Sales and Services	0	0	0	252,283	252,283
Miscellaneous	1,610	0	0	3,319	4,929
<i>Total Receipts</i>	<u>7,306,357</u>	<u>166,315</u>	<u>4,465,152</u>	<u>1,827,601</u>	<u>13,765,425</u>
Disbursements					
Current:					
Instruction:					
Regular	3,667,011	0	0	27,666	3,694,677
Special	325,839	0	0	155,763	481,602
Adult/Continuing	0	0	0	3,187	3,187
Other	312,210	0	0	0	312,210
Support Services:					
Pupils	291,298	0	0	173,993	465,291
Instructional Staff	166,199	0	0	14,252	180,451
Board of Education	39,203	0	0	0	39,203
Administration	660,250	0	0	0	660,250
Fiscal	199,755	0	0	14,574	214,329
Business	51,806	0	0	0	51,806
Operation and Maintenance of Plant	610,765	0	0	13,267	624,032
Pupil Transportation	412,559	0	0	0	412,559
Central	121,078	0	0	69,496	190,574
Operation of Non-Instructional Services	0	0	0	49,372	49,372
Operation of Food Services	0	0	0	366,572	366,572
Extracurricular Activities	176,723	0	0	116,252	292,975
Capital Outlay	0	1,244,937	12,664,784	8,987	13,918,708
Debt Service:					
Principal	0	0	0	225,000	225,000
Interest	0	0	0	214,914	214,914
Issuance Costs	0	0	0	125,484	125,484
<i>Total Disbursements</i>	<u>7,034,696</u>	<u>1,244,937</u>	<u>12,664,784</u>	<u>1,578,779</u>	<u>22,523,196</u>
<i>Excess of Receipts Over Disbursements</i>	<u>271,661</u>	<u>(1,078,622)</u>	<u>(8,199,632)</u>	<u>248,822</u>	<u>(8,757,771)</u>
Other Financing Sources (Uses)					
Refunding Bonds Issued	0	0	0	6,124,996	6,124,996
Premium on Refunding Bonds Issued	0	0	0	566,368	566,368
Proceeds from Sale of Capital Assets	35	0	0	0	35
Refund of Prior Year Expenditures	25,189	1,042	0	0	26,231
Payment to Refunded Bond Escrow Agent	0	0	0	(6,565,880)	(6,565,880)
<i>Total Other Financing Sources (Uses)</i>	<u>25,224</u>	<u>1,042</u>	<u>0</u>	<u>125,484</u>	<u>151,750</u>
<i>Net Change in Fund Balances</i>	296,885	(1,077,580)	(8,199,632)	374,306	(8,606,021)
<i>Fund Balance at Beginning of Year (Restated - See Note 3)</i>	<u>1,980,916</u>	<u>2,274,214</u>	<u>13,326,970</u>	<u>603,157</u>	<u>18,185,257</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,277,801</u>	<u>\$ 1,196,634</u>	<u>\$ 5,127,338</u>	<u>\$ 977,463</u>	<u>\$ 9,579,236</u>
Encumbrances	<u>\$ 31,441</u>	<u>\$ 1,019,640</u>	<u>\$ 5,201,821</u>	<u>\$ 134,069</u>	<u>\$ 6,386,971</u>

See accompanying notes to the basic financial statements.

**Allen East Local School District
Allen County**

*Statement of Cash Receipts, Disbursements and Changes In Fund Balance
Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2007*

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Receipts				
Property and Other Local Taxes	\$ 2,106,400	\$ 2,106,400	\$ 2,071,826	\$ (34,574)
Intergovernmental	4,889,300	4,889,300	4,881,697	(7,603)
Interest	136,500	136,500	138,981	2,481
Tuition and Fees	15,100	146,156	196,884	50,728
Rent	2,500	2,500	5,629	3,129
Gifts and Donations	2,500	2,500	9,730	7,230
Miscellaneous	3,800	3,800	1,610	(2,190)
Total Receipts	7,156,100	7,287,156	7,306,357	19,201
Disbursements				
Current:				
Instruction:				
Regular	3,939,049	3,927,049	3,670,941	(256,108)
Special	717,300	717,300	325,931	(391,369)
Other	325,000	325,000	312,210	(12,790)
Support Services:				
Pupils	294,721	306,721	291,443	(15,278)
Instructional Staff	230,925	230,925	166,345	(64,580)
Board of Education	72,070	72,070	40,203	(31,867)
Administration	794,175	794,175	661,052	(133,123)
Fiscal	262,250	262,250	199,905	(62,345)
Business	79,000	79,000	51,806	(27,194)
Operation and Maintenance of Plant	1,074,235	1,074,235	614,339	(459,896)
Pupil Transportation	678,500	678,500	433,896	(244,604)
Central	124,750	124,750	121,343	(3,407)
Extracurricular Activities:				
Academic Oriented Activities	37,820	37,820	18,071	(19,749)
Occupation Oriented Activities	2,000	2,000	0	(2,000)
Sport Oriented Activities	164,300	164,300	129,921	(34,379)
School and Public Service Co-Curricular Activities	39,900	39,900	28,731	(11,169)
Capital Outlay:				
Other Facilities Acquisition and Construction	75,000	75,000	0	(75,000)
Total Disbursements	8,910,995	8,910,995	7,066,137	(1,844,858)
Excess of Receipts Over (Under) Disbursements	(1,754,895)	(1,623,839)	240,220	1,864,059
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	1,000	1,000	35	(965)
Refund of Prior Year Expenditures	12,500	12,500	25,189	12,689
Transfers Out	(10,000)	(10,000)	0	10,000
Other Financing Uses	(190,000)	(190,000)	0	190,000
Total Other Financing Sources (Uses)	(186,500)	(186,500)	25,224	211,724
Net Change in Fund Balances	(1,941,395)	(1,810,339)	265,444	2,075,783
Fund Balance at Beginning of Year	1,941,390	1,941,390	1,941,390	0
Prior Year Encumbrances Appropriated	39,527	39,527	39,527	0
Fund Balance at End of Year	\$ 39,522	\$ 170,578	\$ 2,246,361	\$ 2,075,783

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County

Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 84,827	\$ 19,487
<i>Total Assets</i>	<u>\$ 84,827</u>	<u>\$ 19,487</u>
Net Assets		
Held in Trust for:		
Scholarships	\$ 78,308	\$ 0
Student Activities	4,090	19,487
Staff	<u>2,429</u>	<u>0</u>
<i>Total Net Assets</i>	<u>\$ 84,827</u>	<u>\$ 19,487</u>

See accompanying notes to the basic financial statements.

**Allen East Local School District
Allen County**

*Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007*

	<u>Private Purpose Trust Fund</u>
Additions	
Gifts and Contributions	\$ 1,652
Interest	3,567
Miscellaneous	<u>6,123</u>
Total Additions	11,342
Deductions	
Payments in Accordance with Trust Agreements	<u>9,167</u>
Total Deductions	<u>9,167</u>
<i>Change in Net Assets</i>	2,175
<i>Net Assets - Beginning of Year (Restated - See Note 3)</i>	<u>82,652</u>
<i>Net Assets - End of Year</i>	<u><u>\$ 84,827</u></u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District consists of three small communities and surrounding rural areas within Allen County. The School District is the 470th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 41 non-certified employees and 74 certified full-time teaching personnel who provide services to 1,010 students and other community members.

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

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. There are no component units of the Allen East Local School District.

The School District is associated with two organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, Apollo Career Center, Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Plan and the Allen County Schools Health Benefits Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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 receipts 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 receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

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

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

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

General Fund	The General Fund is the primary operating fund of the School District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
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Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OSFC Building Fund	This fund accounts for the specific receipts to be used for road and utility improvements, bus garage, athletic field and additional miscellaneous capital projects.
OSFC Local/State Share Fund	This fund accounts for the specific receipts to be used for the new school building project.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust fund accounts for scholarships, student activities, and staff funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution Report, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution Report are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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

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

Tax Budget

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

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Resources

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

Appropriations

Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying a new certificate is not necessary, the annual Appropriation Resolution Report must be legally enacted by the Board of Education at the fund, function, and object level of disbursements, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The Appropriation Resolution Report, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

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

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

E. Property, Plant and Equipment

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

F. Compensated Absences

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

G. Long-Term Debt

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

H. Intergovernmental Receipts

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

I. Interfund Transactions

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

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

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

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the school district. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. At June 30, 2007, there was no amount restricted by enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

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

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances and bus purchases.

K. Receipts, Disbursements, and Expenses

Program Receipts

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

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

Operating Receipts and Expenses

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 3 – RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2007, the School District has elected to include the uniform school supplies, lunchroom and community recreation funds as special revenue funds. In prior years, these funds were recorded as enterprise funds.

In addition, due to the changes in fund classifications from GASB Statement No. 34, the scholarship, staff, and student activity donation funds that were previously classified as Governmental fund types have been reclassified to Private Purpose Trust Funds, since they may not be used for the School District's operations. In addition, the library endowment fund has been reclassified to a Permanent Fund since only the interest may be used for the School District while the principal is to remain intact.

The beginning fund balance of Other Governmental Funds has been restated as follows:

<u>Cash Basis Fund Balance</u>	<u>Government-Wide Statements</u>	<u>Fund Statements</u>
Reported Fund Balances at 06/30/06	\$ 18,205,752	\$ 623,652
Less: Funds reclassified to Private Purpose Trusts	(82,652)	(82,652)
Add: Enterprise Fund reclassified as governmental	59,880	59,880
Add: Fund reclassified to Permanent	2,277	2,277
Restated Fund Balance at 07/01/07	<u>\$ 18,185,257</u>	<u>\$ 603,157</u>

The beginning net assets of the Private Purpose Trust Funds have been restated as follows:

<u>Cash Basis Fund Balance</u>	<u>Fund Statements</u>
Reported Net Assets at 06/30/06	\$ 2,277
Less: Fund reclassified to Permanent	(2,277)
Add: Fund reclassified to Private Purpose Trust	<u>82,652</u>
Restated Fund Balance at 07/01/06	<u>\$ 82,652</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

Deposits

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

At fiscal year end, the carrying amount of the School District's deposits was \$(856,982) and the bank balance was \$195,835. The entire bank balance of \$195,835 was covered by federal depository insurance. Non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at carrying value. As of June 30, 2007, the district had the following investments:

	<u>Carrying Value</u>	Investment Maturities (in years) <u>0-1</u>
Government & Agency Mutual Funds	\$ 8,566,311	\$ 8,566,311
STAROhio	<u>1,974,221</u>	<u>1,974,221</u>
 Total Carrying Value	 <u>\$ 10,540,532</u>	 <u>\$10,540,532</u>

Interest Rate Risk

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

Credit Risk

The School District's investments at June 30, 2007, in Government & Agency Mutual Funds and STAROhio are rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. More than 5 percent of the School District's investments are in Mutual Funds and STAROhio. These investments are 81.27% and 18.73%, respectively, of the School District's total investments for the amounts listed above.

NOTE 5 - PROPERTY TAXES

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 5 – PROPERTY TAXES (continued)

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Allen County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$81,137,760	90%	\$90,713,790	92%
Public Utility	4,567,320	5	4,585,100	5
Tangible Personal Property	<u>4,164,713</u>	<u>5</u>	<u>3,140,705</u>	<u>3</u>
Total Assessed Value	<u>\$89,869,793</u>	<u>100%</u>	<u>\$98,439,595</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$42.11		\$39.66	

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2007, the School District contracted with O'Connor McLaughlin Insurance Company for property insurance and Harcum-Hyre Insurance for general liability insurance.

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

B. Workers' Compensation

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits based on eligible service credit to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and Allen East Local School District are established and may be amended 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 obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$362,134, \$360,852, and \$350,283, respectively; 88 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2007 were \$3,804 made by the School District and \$3,623 made by the plan members.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or on their website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal years 2006 and 2005, 10.58 and 10.57 percent, respectively, 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 statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$53,214, \$45,481, and \$47,406 respectively. The School District has paid all contributions required through June 30, 2007.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 8 - POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retirees who participated in the DB or Combined Plans and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, and June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 8 – POST EMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. 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.

Healthcare benefits are financed on a pay-as-you-go basis. The target level for the health care fund is 150 percent of projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 were \$158,751,207. As of June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants eligible to receive benefits.

NOTE 9 - EMPLOYEE BENEFITS - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for certified personnel and up to 240 days for classified personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit up to a maximum of 46 days for certified employees and 46 days for classified employees.

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2007</u>	<u>Due Within One Year</u>
<i>General Obligations</i>						
<i>2004 Bond Issue</i>						
Current Interest	2.50-3.90%	\$8,095,000	\$ 0	\$6,350,000	\$1,745,000	\$ 230,000
Capital Appreciation	13.77%	189,992	0	0	189,992	0
Accretion of Interest		55,441	34,960	0	90,401	0
<i>2007 Bond Issue</i>						
Current Interest	3.70-4.20%	0	6,095,000	0	6,095,000	155,000
Capital Appreciation	33.76-33.86%	0	29,996	0	29,996	0
Accretion of Interest		0	1,504	0	1,504	0
Total General Obligations		\$8,340,433	\$6,161,460	\$6,350,000	\$8,151,893	\$ 385,000

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 10 – LONG-TERM OBLIGATIONS (continued)

2004 Various Purpose General Obligation Bonds - In July 2004, the School District issued \$8,499,992 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. Current interest serial bonds and current interest term bonds in the amount of \$3,405,000 and \$4,905,000, respectively, were issued July 1, 2004. Capital appreciation bonds were issued July 29, 2004 in the amount of \$189,992. The bonds are being retired from the Bond Retirement debt service fund. The bonds with original maturities of December 1, 2017-2031, in the total amount of \$6,124,996 were refunded in April, 2007.

The current interest serial bonds will continue maturing on each December 1 through fiscal year 2014.

The capital appreciation bonds will mature in fiscal years 2015 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$855,000. For fiscal year 2007, \$34,960 was accreted for total bond value of \$280,393.

The current interest term bonds originally maturing on December 1, 2025 and December 1, 2031, have been refunded by the April, 2007 refunding bonds.

2007 Various Purpose General Obligation Refunding Bonds - In April 2007, the School District issued \$6,124,996 in voted general obligation bonds to refund the 2004 issue for the acquisition, construction, and improvement to buildings and structures at a net premium of \$566,368. Current interest serial bonds and current interest term bonds in the amount of \$1,445,000 and \$4,650,000, respectively, were issued. Capital appreciation bonds were issued in the amount of \$29,996. The bonds are being retired from the Bond Retirement debt service fund.

The current interest serial bonds will mature in fiscal years 2008-2011 and 2021-2023 on each December 1.

The capital appreciation bonds will mature in fiscal years 2018 through 2020 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$1,075,000. For fiscal year 2007, \$1,504 was accreted for total bond value of \$31,500.

The current interest term bonds maturing on December 1, 2013, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2011 and 2012. Unless otherwise called for redemption, the remaining \$60,000 principal amount of the bonds due December 1, 2013, is to be paid at stated maturity in fiscal year 2014.

The current interest term bonds maturing on December 1, 2016, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2014 and 2015. Unless otherwise called for redemption, the remaining \$70,000 principal amount of the bonds due December 1, 2016, is to be paid at stated maturity in fiscal year 2017.

The current interest term bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2023 and each December 1 thereafter. Unless otherwise called for redemption, the remaining \$495,000 principal amount of the bonds due December 1, 2028, is to be paid at stated maturity in fiscal year 2029.

The current interest term bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, 2029 and 2030. Unless otherwise called for redemption, the remaining \$560,000 principal amount of the bonds due December 1, 2031, is to be paid at stated maturity in fiscal year 2032.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 10 – LONG-TERM OBLIGATIONS (continued)

Future principal and interest requirements as of June 30, 2007 are as follows:

Fiscal Year Ending June 30	2004 Bond Issue	2007 Bond Issue	Interest/ Accretion	Total
2008	\$ 230,000	\$ 155,000	\$ 317,148	\$ 702,148
2009	230,000	55,000	291,396	576,396
2010	240,000	55,000	281,906	576,906
2011	250,000	55,000	271,616	576,616
2012	255,000	55,000	260,627	570,627
2013-2017	729,992	315,000	1,828,629	2,873,621
2018-2022	0	764,996	2,126,329	2,891,325
2023-2027	0	2,105,000	755,978	2,860,978
2028-2032	0	2,565,000	277,800	2,842,800
Total	<u>\$ 1,934,992</u>	<u>\$ 6,124,996</u>	<u>\$ 6,411,429</u>	<u>\$ 14,471,417</u>

NOTE 11 - STATUTORY RESERVES

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve
Set-aside balance as of June 30, 2006	\$ (238,760)	\$ 0
Current Year Required Set-Aside	147,438	147,438
Prior Year Offsets carried forward	0	(8,499,992)
Current Year Offsets	0	(40,797)
Current Year Qualifying Disbursements	(149,448)	(341,219)
Total	<u>\$(240,770)</u>	<u>\$ (8,734,570)</u>
Set-aside balance carried forward to FY 2008	<u>\$ (240,770)</u>	
Offset balance carried forward to FY 2008		<u>\$ (8,499,992)</u>

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks. For capital acquisitions, a portion of this extra amount which represents proceeds from bonds, \$8,499,992, may be used to reduce the set-aside requirements for future years.

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 12 – JOINTLY GOVERNED ORGANIZATIONS (continued)

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

Apollo Career Center - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, and it possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Career Center, Greg Bukowski, Treasurer, 3325 Shawnee Road, Lima, Ohio 45806.

NOTE 13 - GROUP PURCHASING POOLS

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

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

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

NOTE 14 - OPERATING LEASES

The School District was obligated under an operating lease agreement with Perry Corporation for copiers. This agreement did not give rise to property rights. The lease limit was reached at the end of fiscal year 2007. Lease payments for fiscal year 2007 totaled \$43,659.

The School District is obligated under an operating lease agreement with Friends Business Source for copiers. This agreement does not give rise to property rights. The lease is for a term of 14,040,000 prints and did not begin until May, 2007. There were no lease payments made to Friends during fiscal year 2007.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
June 30, 2007

NOTE 15 - CONTINGENCIES

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. In the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

NOTE 16 – CONTRACTUAL COMMITMENTS

At June 30, 2007 the School District had the following outstanding contractual commitments:

Contractor/Vendor	Description	Contractual Commitment	Balance
Alexander and Bebout, Inc.	General Trades/Storage Tank	\$ 547,552	\$ 148,124
All Star Bleacher, Inc.	Phase IV	254,256	254,256
Best Restaurant Equipment	Cafeteria - OSFC Project	401,600	60,093
Bodie Electric	Electric - OSFC Project	2,715,695	356,902
Cardinal Bus Sales	Bus	67,622	67,622
CTL Engineering, Inc.	Construction Testing	79,000	23,973
Continental Furniture	Furnishings	650,399	650,399
Data Eclipse	Technology - OSFC Project	195,400	52,124
Fanning Howey	OSFC Project & Appeals Fees	681,860	325,883
Folding Equipment Co.	Loose Furnishings	165,625	32,034
Four Seasons Environmental	Commissioning	80,909	28,947
Frost & Company	HVAC for Bus Garage & Field	65,493	19,331
Frost & Company	OSFC Project - Site Work	3,376,032	375,105
Miracle Recreation	Playground Equipment	96,717	16,156
Mosser Construction	Building - OSFC Project	13,580,023	2,895,578
Nevco Scoreboards Co.	Scoreboards	19,304	19,304
New Tech Roofing	OSFC Project - Site Work	1,077,977	53,551
RD Jones Excavating, Inc.	Athletic Field - Phone I	160,500	13,500
RD Jones Excavating, Inc.	OSFC Project	2,135,460	572,822
RD Jones Excavating, Inc.	Phase IV Site Work	615,000	173,745
S A Comunale	Fire Suppression System	1,044,456	496,329
Schumm Plumbing and Heating	Plumbing	146,594	74,514
Sidney Electric	Technology - OSFC Project	326,680	42,932
Smith Boughan, Inc.	OSFC Project - Site Work	1,530,884	34,074
Valley Electric Consolidated	Technology - OSFC Project	416,785	46,212
Wells Brothers	Phase IV	174,000	112,421
		<u>\$30,605,823</u>	<u>\$6,945,931</u>

NOTE 17 – ACCOUNTABILITY AND COMPLIANCE

At June 30, 2007, the Capital Project, OSFC Local/State Share Fund had a deficit cash fund balance in the amount of \$74,483. The General Fund is liable for any deficit in the School District's funds and provides operating transfers when cash is required.

Ohio Administrative Code Section 117-2-03 requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2007, the School District prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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Lima, OH 45805-1130
PH 419-331-1040
FAX 419-331-1120
www.reacpa.com

We're Ready For Your Future

November 30, 2007

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District (the School District) as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 30, 2007, wherein we noted that the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen East Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Allen East Local School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Allen East Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allen East Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-01.

We noted certain matters that we reported to management of Allen East Local School District in a separate letter dated November 30, 2007.

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

Rea & Associates, Inc.

Cambridge Columbus Coshocton Dublin Lima Marietta  Medina Mentor Millersburg New Philadelphia Wooster

An independent member firm of Moore Stephens International Limited

ALLEN EAST LOCAL SCHOOL DISTRICT

**Schedule of Findings
Year Ended June 30, 2007**

1. Summary of Auditor's Results

(d) (1) (I)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material weaknesses or significant deficiencies that are not considered to be material weaknesses identified at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any material non-compliance noted at the financial statement level (GAGAS)?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS
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GAAP Reporting 2007-01 (repeat from FY06)

Ohio Admin. Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2007, the District prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying basic financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

ALLEN EAST LOCAL SCHOOL DISTRICT
Schedule of Prior Audit Findings
Year Ended June 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-01	Financial Statements – Should be prepared in accordance with generally accepted accounting principles.	No	Not Corrected – The District plans to continue reporting on the cash basis.

Corrective Action Plan

Responsible Contact Person: Rhonda Zimmerly, Treasurer

Finding 2007-01: Ohio Admin. Code Section 117-2-03 (Repeat of 2006-01)

No corrective action plan will be implemented. The District plans to continue reporting on the cash basis.



Mary Taylor, CPA
Auditor of State

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 17, 2008