

Allen East Local School District
Allen County
Basic Financial Statements – Cash Basis

For the Fiscal Year Ended June 30, 2010



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Dave Yost • Auditor of State

January 11, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

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Mary Taylor, CPA
Auditor of State

Board of Education
Allen East Local School District
9105 Harding Highway
Harrod, Ohio 45850

We have reviewed the *Independent Auditor's Report* of the Allen East Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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

December 23, 2010

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**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 21, 2010

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

INDEPENDENT AUDITOR'S 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 (the "School District"), Allen County, Ohio, as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code §117-2-03(B) requires the School District 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 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, 2010, 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 basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2010 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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.

Management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allen East Local School District basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010*

The discussion and analysis of the Allen East Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's 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 2010 are as follows:

- ❑ General Receipts accounted for \$8,359,720 in receipts, or 82 percent of all receipts.
- ❑ Total program disbursements were \$10,092,963.
- ❑ In total, net assets increased \$132,251, mostly due to a lack of capital outlay disbursements as a result of the completion of the Ohio School Facilities Commission ("OSFC") project.

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. 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 2010, the General Fund and OSFC Local/State Share Fund are the School District's major 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. 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, 2010*

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 2010?" 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 7. 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 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 the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less 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. These funds also use the cash basis of accounting.

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 15 and 16. 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.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010*

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the Governmental Accounting Standards Board ("GASB") 34 format. Table 1 provides a summary of the School District's net assets for fiscal years 2010 and 2009.

**(Table 1)
Net Assets – Cash basis**

	Governmental Activities	
	2010	2009
ASSETS		
Equity in Pooled Cash & Cash Equivalents	\$ 7,468,382	\$ 7,336,131
Total Assets	\$ 7,468,382	\$ 7,336,131
NET ASSETS		
Restricted:		
Capital Outlay	\$ 3,421,251	\$ 3,740,772
Debt Service	238,361	225,590
Permanent Fund		
Expendable	22	20
Non-Expendable	2,000	2,000
Other Purposes	479,910	376,483
Unrestricted	3,326,838	2,991,266
Total Net Assets	\$ 7,468,382	\$ 7,336,131

Net assets of the governmental activities increased \$132,251, which represents a 1.8 percent increase from fiscal year 2009. The increase is the result of a lack of capital outlay disbursements as a result of the completion of the OSFC building project.

A portion of the School District's net assets, \$4,141,544, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$3,326,838 may be used to meet the School District's ongoing obligations.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010*

Table 2 shows the changes in net assets for fiscal year 2010 as compared to fiscal year 2009.

**(Table 2)
Governmental Activities – Cash Basis**

	Governmental Activities	
	2010	2009
Receipts		
<i>Program Receipts</i>		
Charges for Services	\$ 1,032,909	\$ 996,229
Operating Grants	777,023	929,403
Capital Grants	55,562	106,709
<i>General Receipts</i>		
Property Taxes	2,834,080	2,758,649
Grants and Entitlements	5,504,254	4,787,254
Other	21,386	257,544
Total Receipts	10,225,214	9,835,788
<i>Program Disbursements</i>		
Instruction	4,867,328	4,743,999
Support Services	3,549,736	3,373,151
Non-Instructional	44,237	56,063
Food Services	446,820	436,459
Extracurricular	285,005	313,355
Capital Outlay	322,931	311,784
Repayment of Debt	576,906	576,396
Total Disbursements	10,092,963	9,811,207
Increase (Decrease) in Net Assets	\$ 132,251	\$ 24,581

Governmental Activities

Several receipt sources fund the School District's governmental activities with the school foundation program being the largest contributor. School foundation provided \$5.5 million in fiscal year 2010. Property tax levies generated \$2.8 million in fiscal year 2010. With the combination of taxes and school foundation funding of 82 percent of disbursements in governmental activities, the School District monitors both of these receipt sources very closely for fluctuations.

The majority of program disbursements for governmental activities are for instruction, which accounts for 48 percent of all governmental disbursements. Other programs which support the instruction process account for 35 percent of total governmental disbursements. The remaining 17 percent of the School District's disbursements are related to the primary functions of delivering education and providing facilities.

**Allen East Local School District
Allen County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010*

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 years 2010 and 2009.

**(Table 3)
Governmental Activities – Cash Basis**

	2010		2009	
	Total Cost of Service	Net (Receipts) Cost of Service	Total Cost of Service	Net (Receipts) Cost of Service
Instruction	\$ 4,867,328	\$ 4,131,597	\$ 4,743,999	\$ 3,850,668
Support Services:				
Pupil and Instructional Staff	842,813	441,573	702,451	476,617
Board of Education, Business, Administration and Fiscal	1,047,782	1,046,827	990,479	988,514
Operation and Maintenance of Plant	955,917	915,291	901,549	856,949
Pupil Transportation	497,176	497,176	536,296	476,894
Central	206,048	201,048	242,376	237,376
Operation of Non-Instructional	44,237	(61)	56,063	(5,518)
Food Services	446,820	(30,960)	436,459	(34,027)
Extracurricular Activities	285,005	180,703	313,355	196,172
Capital Outlay	322,931	267,369	311,784	252,748
Repayment of Debt	576,906	576,906	576,396	482,473
Total	\$ 10,092,963	\$ 8,227,469	\$ 9,811,207	\$ 7,778,866

Instruction and student support services comprise 57 percent of governmental program expenses in fiscal year 2010. Board of Education, Business, Administration and Fiscal charges were 10 percent in 2010. Fiscal expenses include payments to the County Auditor(s) for administrative fees and other administrative services provided by the School District. Pupil transportation and the operation and maintenance of facilities accounted for 14 percent in 2010.

The dependence upon foundation revenues for governmental activities is apparent.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The School District has two major governmental funds: the General Fund and OSFC Local/State Share Fund. Receipts of the General Fund comprise \$7,840,399 (77 percent) of the total \$10,212,395 governmental funds' receipts and \$7,508,612 (74 percent) of the total \$10,092,963 of governmental funds' disbursements. Receipts of the OSFC Local/State Share generated \$13,405 (less than 1% percent) of the total governmental receipts and utilized \$62,376 (less than 1% percent) of the total governmental disbursements.

General Fund – The General Fund cash balance at June 30, 2010 was \$3,337,581, which represents 45 percent of total governmental funds' cash balances for fiscal year 2010. General fund receipts were more than disbursements by \$335,573 mostly due to an increase in tax and intergovernmental receipts and tuition and fees receipts.

OSFC Local/State Share Fund – The OSFC Local/State Share Fund cash balance at June 30, 2010 was \$2,994,111, which represents 40 percent of total governmental funds' cash balances for fiscal year 2010. OSFC Local/State Share Fund receipts were less than disbursements by \$148,971.

Allen East Local School District
Allen County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

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 2010, the School District did not amend its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis actual receipts were \$7,840,399 compared to the final budget estimates of \$7,706,046. Of this \$134,353 increase, most was attributable to an increase in intergovernmental receipts due to budget stabilization funds as well as increased tax receipts and tuition and fees.

General fund budget basis actual disbursements were \$7,559,676, which is under final budgeted disbursements of \$10,543,255 for fiscal year 2010. Actual instruction, operation and maintenance of plant, pupil transportation and administration disbursements were significantly under budgeted expectations. This was because disbursements were budgeted higher than usual to ensure for any possible increases in costs for maintaining the new building.

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 School District was funded by the OSFC at 79 percent for their portion of the project.

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

For further information regarding the District's debt, refer to Note 9 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 in fiscal year 2006-2007 as a new receipt source. Receipts for open enrollment are expected to generate between \$350,000 to \$400,000 annually, with spending on enrollments elsewhere being approximately \$200,000.

The Board of Education also refinanced its bond debt in May, 2008. This refinancing saved the School District over \$300,000 in debt.

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, 2010

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. The new evidence-based model introduced by the governor has also changed the format of our foundation settlements. 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.

In the course of routine surveillance, Fitch Ratings has affirmed the A+ rating on Allen East Local School District's outstanding unlimited general obligation bonds series 2004 and 2007. The Rating Outlook is Stable. The A+ rating reflects the School District's strong, conservative financial management as evidenced by ample cash reserves, reliance on state aid and sparing use of expiring levies, which has insulated its reserves from the cyclical effects of periodic voter approvals that typify other Ohio school districts. The key rating driver is management's ability to continue current practices and maintain ample fiscal cushion given the economic downturn and fixed revenue streams.

Contacting the School District's Financial Management

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

Allen East Local School District
Allen County

Statement of Net Assets - Cash Basis
June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 7,024,442
Cash and Cash Equivalents in Segregated Account	<u>443,940</u>
<i>Total Assets</i>	<u><u>\$ 7,468,382</u></u>
Net Assets	
Restricted for:	
Capital Outlay	\$ 3,421,251
Debt Service	238,361
Permanent Fund	
Expendable	22
Non-Expendable	2,000
Other Purposes	479,910
Unrestricted	<u>3,326,838</u>
<i>Total Net Assets</i>	<u><u>\$ 7,468,382</u></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, 2010*

	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
Governmental Activities:					
Instruction:					
Regular	\$ 3,933,673	\$ 569,426	\$ 29,900	\$ 0	\$ (3,334,347)
Special	541,140	2,724	132,748	0	(405,668)
Other	392,515	0	933	0	(391,582)
Support Services:					
Pupils	639,417	22,329	364,608	0	(252,480)
Instructional Staff	203,396	0	14,303	0	(189,093)
Board of Education	20,764	0	0	0	(20,764)
Administration	716,976	0	0	0	(716,976)
Fiscal	266,569	955	0	0	(265,614)
Business	43,473	0	0	0	(43,473)
Operation and Maintenance of Plant	955,917	0	40,626	0	(915,291)
Pupil Transportation	497,176	0	0	0	(497,176)
Central	206,048	0	5,000	0	(201,048)
Operation of Non-Instructional Services	44,237	44,298	0	0	61
Operation of Food Services	446,820	289,892	187,888	0	30,960
Extracurricular Activities	285,005	103,285	1,017	0	(180,703)
Capital Outlay	322,931	0	0	55,562	(267,369)
Repayment of Debt:					
Principal	295,000	0	0	0	(295,000)
Interest	281,906	0	0	0	(281,906)
Total Governmental Activities	\$ 10,092,963	\$ 1,032,909	\$ 777,023	\$ 55,562	(8,227,469)
		General Receipts			
		Property Taxes Levied for:			
		General Purposes			2,146,027
		Debt Service			510,224
		Capital Projects			137,554
		Building Maintenance			40,275
		Grants and Entitlements not Restricted to Specific Programs			5,504,254
		Interest			6,287
		Miscellaneous			15,099
		Total General Receipts			8,359,720
		Change in Net Assets			132,251
		Net Assets - Beginning of Year			7,336,131
		Net Assets - End of Year			\$ 7,468,382

See accompanying notes to the basic financial statements.

**Allen East Local School District
Allen County**

*Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2010*

	General Fund	OSFC Local/State Share Fund	All Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,337,581	\$ 2,550,171	\$ 1,136,690	\$ 7,024,442
Cash and Cash Equivalents in Segregated Account	0	443,940	0	443,940
<i>Total Assets</i>	<u>\$ 3,337,581</u>	<u>\$ 2,994,111</u>	<u>\$ 1,136,690</u>	<u>\$ 7,468,382</u>
Fund Balances				
Reserved for Encumbrances	\$ 51,063	\$ 30,505	\$ 52,314	\$ 133,882
Unreserved, Undesignated, Reported in:				
General Fund	3,286,518	0	0	3,286,518
Special Revenue Funds	0	0	454,992	454,992
Debt Service Funds	0	0	238,361	238,361
Capital Projects Funds	0	2,963,606	389,001	3,352,607
Permanent Fund	0	0	2,022	2,022
<i>Total Fund Balances</i>	<u>\$ 3,337,581</u>	<u>\$ 2,994,111</u>	<u>\$ 1,136,690</u>	<u>\$ 7,468,382</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, 2010*

	General Fund	OSFC Local/State Share Fund	All Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 2,146,027	\$ 0	\$ 688,053	\$ 2,834,080
Intergovernmental	5,106,398	0	1,199,761	6,306,159
Interest	6,287	13,405	7,223	26,915
Tuition and Fees	572,150	0	45,797	617,947
Rent	4,008	0	0	4,008
Extracurricular Activities	0	0	117,887	117,887
Gifts and Donations	3,248	0	5,591	8,839
Customer Sales and Services	0	0	289,893	289,893
Miscellaneous	2,281	0	4,386	6,667
<i>Total Receipts</i>	<u>7,840,399</u>	<u>13,405</u>	<u>2,358,591</u>	<u>10,212,395</u>
Disbursements				
Current:				
Instruction:				
Regular	3,616,878	0	316,795	3,933,673
Special	410,246	0	130,894	541,140
Other	392,515	0	0	392,515
Support Services:				
Pupils	279,082	0	360,335	639,417
Instructional Staff	192,604	0	10,792	203,396
Board of Education	20,764	0	0	20,764
Administration	716,976	0	0	716,976
Fiscal	252,285	0	14,284	266,569
Business	43,473	0	0	43,473
Operation and Maintenance of Plant	867,795	0	88,122	955,917
Pupil Transportation	406,597	0	90,579	497,176
Central	126,192	0	79,856	206,048
Operation of Non-Instructional Services	0	0	44,237	44,237
Operation of Food Services	0	0	446,820	446,820
Extracurricular Activities	183,205	0	101,800	285,005
Capital Outlay	0	62,376	260,555	322,931
Debt Service:				
Principal	0	0	295,000	295,000
Interest	0	0	281,906	281,906
<i>Total Disbursements</i>	<u>7,508,612</u>	<u>62,376</u>	<u>2,521,975</u>	<u>10,092,963</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>331,787</u>	<u>(48,971)</u>	<u>(163,384)</u>	<u>119,432</u>
Other Financing Sources (Uses)				
Transfers In	0	0	100,000	100,000
Refund of Prior Year Disbursements	3,786	0	9,033	12,819
Transfers Out	0	(100,000)	0	(100,000)
<i>Total Other Financing Sources (Uses)</i>	<u>3,786</u>	<u>(100,000)</u>	<u>109,033</u>	<u>12,819</u>
<i>Net Change in Fund Balances</i>	335,573	(148,971)	(54,351)	132,251
<i>Fund Balance at Beginning of Year</i>	<u>3,002,008</u>	<u>3,143,082</u>	<u>1,191,041</u>	<u>7,336,131</u>
<i>Fund Balance at End of Year</i>	<u>\$ 3,337,581</u>	<u>\$ 2,994,111</u>	<u>\$ 1,136,690</u>	<u>\$ 7,468,382</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, 2010*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Receipts				
Property and Other Local Taxes	\$ 2,137,495	\$ 2,077,495	\$ 2,146,027	\$ 68,532
Intergovernmental	4,968,651	5,068,651	5,106,398	37,747
Interest	51,000	11,000	6,287	(4,713)
Tuition and Fees	508,000	508,000	572,150	64,150
Rent	5,900	5,900	4,008	(1,892)
Gifts and Donations	25,000	25,000	3,248	(21,752)
Miscellaneous	10,000	10,000	2,281	(7,719)
Total Receipts	<u>7,706,046</u>	<u>7,706,046</u>	<u>7,840,399</u>	<u>134,353</u>
Disbursements				
Current:				
Instruction:				
Regular	4,710,478	4,620,478	3,616,878	1,003,600
Special	914,150	914,150	410,246	503,904
Other	410,500	410,500	393,955	16,545
Support Services:				
Pupils	323,175	333,175	280,626	52,549
Instructional Staff	222,600	222,600	192,604	29,996
Board of Education	68,400	68,400	22,364	46,036
Administration	741,787	821,787	717,176	104,611
Fiscal	293,300	293,300	252,285	41,015
Business	52,000	50,500	43,473	7,027
Operation and Maintenance of Plant	1,631,282	1,631,282	888,286	742,996
Pupil Transportation	640,300	640,300	431,247	209,053
Central	186,450	187,950	126,307	61,643
Extracurricular Activities:				
Academic Oriented Activities	34,323	34,323	19,075	15,248
Occupation Oriented Activities	1,700	1,700	0	1,700
Sport Oriented Activities	175,200	175,200	137,565	37,635
School and Public Service Co-Curricular Activities	37,610	37,610	27,589	10,021
Capital Outlay:				
Other Facilities Acquisition and Construction	100,000	100,000	0	100,000
Total Disbursements	<u>10,543,255</u>	<u>10,543,255</u>	<u>7,559,676</u>	<u>2,983,579</u>
Excess of Receipts Over (Under) Disbursements	<u>(2,837,209)</u>	<u>(2,837,209)</u>	<u>280,723</u>	<u>3,117,932</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	10,000	10,000	0	(10,000)
Refund of Prior Year Expenditures	25,000	25,000	3,786	(21,214)
Transfers In	100	100	0	(100)
Advances In	100	100	0	(100)
Other Financing Uses	(200,000)	(200,000)	0	200,000
Total Other Financing Sources (Uses)	<u>(164,800)</u>	<u>(164,800)</u>	<u>3,786</u>	<u>168,586</u>
Net Change in Fund Balances	<u>(3,002,009)</u>	<u>(3,002,009)</u>	<u>284,509</u>	<u>3,286,518</u>
Fund Balance at Beginning of Year	2,932,926	2,932,926	2,932,926	0
Prior Year Encumbrances Appropriated	<u>69,083</u>	<u>69,083</u>	<u>69,083</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,286,518</u>	<u>\$ 3,286,518</u>

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, 2010*

	Private Purpose Trust Fund	Agency Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 77,289	\$ 11,379
<i>Total Assets</i>	<i>\$ 77,289</i>	<i>\$ 11,379</i>
Net Assets		
Held in Trust for:		
Scholarships	\$ 77,289	\$ 0
Student Activities	0	10,755
Staff	0	624
<i>Total Net Assets</i>	<i>\$ 77,289</i>	<i>\$ 11,379</i>

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, 2010*

	<u>Private Purpose Trust Fund</u>
Additions	
Gifts and Contributions	\$ 365
Interest	<u>47</u>
Total Additions	412
Deductions	
Payments in Accordance with Trust Agreements	<u>3,000</u>
Total Deductions	<u>3,000</u>
<i>Change in Net Assets</i>	(2,588)
<i>Net Assets - Beginning of Year</i>	<u>79,877</u>
<i>Net Assets - End of Year</i>	<u><u>\$ 77,289</u></u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 staffed by non-certificated employees and certificated full-time teaching personnel who provide services to 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 11 and 12 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
For the Fiscal Year Ended June 30, 2010

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 disbursements and program receipts for each program or function of the School District's governmental activities. Direct disbursements 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 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 and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 fund level. 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.

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.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 level of disbursements, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements 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 fund appropriation 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.

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, including proprietary funds, are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records.

The School District also maintains a separate account that only includes monies for the OSFC project, which is included on the balance sheet as "Cash and Cash Equivalents in Segregated Account."

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 which were not purchased from the cash management pool 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.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

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, 2010, there was no amount restricted by enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance.

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

K. Receipts and Disbursements

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.

Disbursements

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.

L. Changes in Accounting Principles

For the year ended June 30, 2010, the School District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments," and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies."

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

NOTE 3 - 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.

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

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

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

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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;
8. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

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 public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the School District's deposits was \$382,630 and the bank balance was \$470,874. The entire bank balance 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, 2010, the district had the following investments:

	Carrying Value	Investment Maturities (in years) 0-1
Mutual Funds	\$ 1,756,292	\$ 1,756,292
STAROhio	5,418,128	5,418,128
 Total Carrying Value	 \$ 7,174,420	 \$ 7,174,420

At June 30, 2010, the School District had \$443,940 of the STAROhio balance maintained in a separate account which is included on the balance sheet as "Cash and Cash Equivalents in Segregated Account."

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.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk

The School District's investments at June 30, 2010, 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 percent 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 24.50 percent and 75.50 percent, respectively, of the School District's total investments for the amounts listed above.

NOTE 4 - PROPERTY TAXES

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

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

The School District receives property taxes from Allen County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 4 - PROPERTY TAXES (continued)

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

	2009 Second-Half Collections		2010 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$94,769,970	96%	\$103,874,850	96%
Public Utility	<u>4,069,210</u>	<u>4</u>	<u>4,286,020</u>	<u>4</u>
Total Assessed Value	<u>\$98,839,180</u>	<u>100%</u>	<u>\$108,160,870</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$39.50		\$38.79	

NOTE 5 - 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 2010, the School District contracted with Hylant Group/Ohio School Plan 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 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program ("GRP"), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement 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.

C. Health Care Benefits

The School District participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of the school districts within Allen County. The School District pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 12, the School District offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Allied Benefit Systems, Inc.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age sixty; the DB Plan portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. For fiscal year 2010, the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

The School District’s required contributions for obligations to STRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$508,844, \$484,358, and \$491,523, respectively; 83 percent has been contributed for fiscal year 2010, and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$4,008 made by the School District and \$5,612 made by the plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - PENSION PLANS (continued)

Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2010, it was determined the employer contribution rate to pension and death benefits to be 12.78 percent. For fiscal year 2009 and 2008, the employer contribution rate was 9.09 and 9.16 percents, respectively. The remaining 1.22 percent of the 14 percent employer contribution rate was allocated to the Health Care and Medicare B Funds.

The School District's required contribution for obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$119,324, \$91,534, and \$86,381 respectively; 40 percent has been contributed for fiscal year 2010, and 100 percent for fiscal years 2009 and 2008.

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, 2010, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 7 - POST EMPLOYMENT BENEFITS

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

State Teachers Retirement System

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2010, 2009 and 2008. The 14 percent employer contribution rate is the maximum rate established under Ohio law. The School District's contributions for post employment health care for fiscal years ended June 30, 2010, 2009 and 2008 were \$39,142, \$37,258 and \$37,809, respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7 - POST EMPLOYMENT BENEFITS (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2009 (the latest information available), the balance in the Fund was \$2.7 billion. For the fiscal year ended June 30, 2009, net health care costs paid by STRS Ohio were \$298,111,000 and STRS Ohio had 129,659 eligible benefit recipients.

School Employees Retirement System

Medicare Part B Plan

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans, the Medicare Part B Plan and the Health Care Plan. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40; SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2010, the actuarially required allocation was 0.76 percent. The School District's contributions for the fiscal years ended June 30, 2010, 2009 and 2008 were \$7,003, \$7,552 and \$6,224, respectively, which equaled the required contributions each year.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation was .46 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care fund for the fiscal years ended June 30, 2010, 2009, and 2008 were \$52,544, \$41,890 and \$39,419, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8 - 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 9 - LONG-TERM OBLIGATIONS

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

<i>General Obligations</i>	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2010</u>	<u>Due Within One Year</u>
2004 Bond Issue						
Current Interest	2.50-3.90 percent	\$1,285,000	\$ 0	\$ 240,000	\$1,045,000	\$ 250,000
Capital Appreciation	13.77 percent	189,992	0	0	189,992	0
Accretion of Interest		175,970	52,129	0	228,099	0
2007 Bond Issue						
Current Interest	3.70-4.20 percent	5,885,000	0	55,000	5,830,000	55,000
Capital Appreciation	33.76-33.86 percent	29,996	0	0	29,996	0
Accretion of Interest		28,885	21,621	0	50,506	0
Total General Obligations		<u>\$7,594,843</u>	<u>\$ 73,750</u>	<u>\$ 295,000</u>	<u>\$7,373,593</u>	<u>\$ 305,000</u>

2004 Various Purpose General Obligation Bonds - In July 2004, the School District issued \$8,499,992 in voted general obligation bonds for the acquisition, construction, and improvement to buildings and structures. Current interest 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 2010, \$52,129 was accreted for total bond value of \$418,091.

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.

Allen East Local School District
Allen County

*Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010*

NOTE 9 - LONG-TERM OBLIGATIONS (continued)

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 2010, \$21,621 was accreted for total bond value of \$80,502.

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.

Future principal and interest requirements as of June 30, 2010 are as follows:

Fiscal Year Ending June 30,	2004 Bond Issue	2007 Bond Issue	Interest/ Accretion	Total
2011	\$ 250,000	\$ 55,000	\$ 271,616	\$ 576,616
2012	255,000	55,000	260,627	570,627
2013	265,000	60,000	248,909	573,909
2014	275,000	60,000	230,995	565,995
2015	71,925	60,000	228,685	360,610
2016-2020	118,067	164,996	2,160,928	2,443,991
2021-2025	0	1,950,000	920,608	2,870,608
2026-2030	0	2,365,000	481,830	2,846,830
2031-2032	0	1,090,000	46,410	1,136,410
Total	<u>\$ 1,234,992</u>	<u>\$ 5,859,996</u>	<u>\$ 4,850,608</u>	<u>\$ 11,945,596</u>

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 10 - 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, 2010, the reserve activity was as follows:

	Textbook Reserve	Capital Maintenance Reserve
Set-aside balance as of June 30, 2009	\$ (285,426)	\$ 0
Current Year Required Set-Aside	181,082	181,082
Current Year Offsets	0	(177,829)
Current Year Qualifying Disbursements	(130,068)	(3,253)
Total	\$ (234,412)	\$ 0
Set-aside balance carried forward to FY 2011	\$ (234,412)	
Prior Year Offsets carried forward		(8,499,992)
Offset balance carried forward to FY 2011		\$ (8,499,992)

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 11 - 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.

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 Ray Burden, Executive 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 12 - 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 East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 12 - GROUP PURCHASING POOLS (continued)

Allen County Schools Health Benefits Plan - The District participates in the Allen County Schools Health Benefits Plan (the "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 13 - OPERATING LEASES

The School District is obligated under an operating lease agreement with Friends Business Source ("Friends") for copiers. This agreement does not give rise to property rights. The lease is for a term of 14,040,000 prints and began in May, 2007. There was \$25,627 in lease payments made to Friends during fiscal year 2010.

NOTE 14 - 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, 2010.

NOTE 15 - CONTRACTUAL COMMITMENTS

At June 30, 2010 the School District had the following significant outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance at 6/30/10</u>
Hospitality WIFI, LLC	Building Wireless Upgrade	\$ 24,235	\$ 24,235
Taylor Painting	Blacktop Sealing	11,454	11,454
Cardinal Bus Sales	Summer Bus Maintenance	24,500	24,500
RD Jones Excavating, Inc	Track & Field Concrete	18,970	18,970
		<u>\$ 79,159</u>	<u>\$ 79,159</u>

NOTE 16 - ACCOUNTABILITY AND COMPLIANCE

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 2010, 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.

Allen East Local School District
Allen County

Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 17 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance “Budget and Actual” – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to \$51,063 for the General Fund.

NOTE 18 – TRANSFERS

During the fiscal year ended June 30, 2010, the following transfers in and out occurred:

<u>Fund as of June 30, 2010</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds		
OSFC Local/State Fund	\$ 0	\$ 100,000
All Other Governmental Funds		
Permanent Improvement	100,000	0
Total All Other Governmental Funds	<u>100,000</u>	<u>100,000</u>
Total All	<u>\$ 100,000</u>	<u>\$ 100,000</u>

The transfer from the OSFC Local/State Fund to the Permanent Improvement Fund was made for the purpose of additional projects to the modification of the building and/or project approved site work in accordance with HB119.



Rea & Associates, Inc.

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November 21, 2010

The 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 accompanying 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"), Allen County, Ohio, as of and for the year ended June 30, 2010, which collectively comprise School District's basic financial statements and have issued our report thereon dated November 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that are required to be reported under *Government Auditing Standards* and is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2010-01.

Allen East Local School District
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
November 21, 2010

We noted certain matters that we reported to management of the School District in a separate letter dated November 21, 2010.

Allen East Local School District's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Kea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

November 21, 2010

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Allen East Local School District (the "School District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Allen East Local School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

Management of Allen East Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

Allen East Local School District
Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct And Material
Effect on Each Major Program and Internal Control
Over Compliance in Accordance With OMB Circular A-133
November 21, 2010

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

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

This report is intended solely for the information and use of Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

ALLEN EAST LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-cash Transactions
U. S. Department of Education					
(Passed Through Ohio Department of Education):					
<i>Title I Cluster</i>					
Title I Grants to Local Education Agencies	84.010	2009	\$ 13,985	\$ 17,739	\$ 0
Title I Grants to Local Education Agencies	84.010	2010	103,859	97,173	0
ARRA -- Title I Grants to Local Education Agencies	84.389	2010	28,889	20,837	0
Total Title I Cluster			<u>146,733</u>	<u>135,749</u>	<u>0</u>
Title II-A Improving Teacher Quality	84.367	2009	819	1,185	0
Title II-A Improving Teacher Quality	84.367	2010	29,081	28,134	0
Total Title II-A			<u>29,900</u>	<u>29,319</u>	<u>0</u>
Title II-D Education Technology	84.318	2010	100	1,012	0
ARRA - State Fiscal Stabilization Fund – Education State Grants	84.394		305,537	292,023	0
Title IV-A Safe and Drug-Free Schools and Communities	84.186	2010	2,725	2,725	0
Title V, State Grants for Innovative Programs	84.298	2009	216	0	0
<i>Special Education Cluster</i>					
IDEA-B, Special Education Grants to States	84.027	2010	191,083	191,083	0
ARRA - IDEA-B Special Education Grants to States	84.391	2010	165,017	143,110	0
Total Special Education Cluster			<u>356,100</u>	<u>334,193</u>	<u>0</u>
Total Department of Education			<u>841,311</u>	<u>795,021</u>	<u>0</u>
U. S. Department of Agriculture					
(Passed Through Ohio Department of Education):					
<i>Nutrition Cluster:</i>					
Commodity Distribution Program (A) (B)	10.555	2010	25,393	0	25,393
School Breakfast Program (A)	10.553	2010	15,952	15,952	0
National School Lunch Program (A)	10.555	2010	140,378	140,378	0
Total Nutrition Cluster			<u>181,723</u>	<u>156,330</u>	<u>25,393</u>
Total Department of Agriculture			<u>181,723</u>	<u>156,330</u>	<u>25,393</u>
Total Federal Assistance			<u>\$ 1,023,034</u>	<u>\$ 951,351</u>	<u>\$ 25,393</u>

**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CASH BASIS
June 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**ALLEN EAST LOCAL SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 , Section .505
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS
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Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	Yes
 Federal Awards	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Identification of major programs:	ARRA - State Fiscal Stabilization Fund – Education State Grants CFDA #84.394
	Special Education Cluster CFDA # 84.027 & 84.391
Dollar threshold used to distinguish between Type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**ALLEN EAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**FINDING 2010-01(Repeat from FY09)
Material Noncompliance**

Criteria: Ohio Administrative Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.

Condition Found: For fiscal year 2010 the School 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.

Effect: The accompanying basic financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

Recommendations: The School District should implement procedures to prepare its annual financial report in accordance with generally accepted accounting principles.

Corrective Action: Contact Person: Rhonda Zimmerly, Treasurer
No corrective action will be implemented. The District plans to continue reporting on the cash basis.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

ALLEN EAST LOCAL SCHOOL DISTRICT
Schedule of Prior Audit Findings
Year Ended June 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2009-01	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.



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 11, 2011**