

**ALLEN EAST LOCAL SCHOOL DISTRICT**

**ALLEN COUNTY**

**BASIC FINANCIAL STATEMENTS – MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Allen East Local School District, Allen County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. 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

February 6, 2007

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**ALLEN EAST LOCAL SCHOOL DISTRICT  
ALLEN COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

2300 Baton Rouge Avenue  
Lima, OH 45805-1130  
PH 419-331-1040  
FAX 419-331-1120  
www.reacpa.com

We're Ready For Your Future

August 30, 2006

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

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District, Allen County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen East Local School District, Allen County, Ohio, as of June 30, 2006, and the respective changes in modified cash basis financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2006 on our consideration of the Allen East Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Rea & Associates, Inc.*



**Allen East Local School District**  
**Allen County**

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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The discussion and analysis of the Allen East Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- General Receipts accounted for \$7,924,684 in revenue or 39% of all receipts.
- Total program expenses were \$19,535,325; \$19,188,313 in governmental activities.
- In total, net assets increased \$921,737.

***Using this Annual Report***

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2006, the General Fund, OSFC Local/State Share Fund, and OSFC Building Fund are by far the most significant funds.

***Basis of Accounting***

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

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

**Allen East Local School District**  
**Allen County**

*Management's Discussion and Analysis*  
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*(Unaudited)*

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***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 2006?" 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. Business-type activities are financed by charges for services including food services, recreation and supplies.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

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

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

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



**Allen East Local School District  
Allen County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for some of its scholarship and trust programs. This activity is presented as a private purpose trust. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 16 and 17. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**The School District as a Whole**

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. The School District has provided a comparative analysis between fiscal year 2006 and 2005.

**(Table 1)  
Net Assets – Modified Cash Basis**

	Governmental Activities		Business-Type Activities		Totals	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>						
Cash & cash equivalents	\$ 9,104,186	\$ 17,259,005	\$ 59,880	\$ 15,957	\$ 9,164,066	\$ 17,274,962
Investments	<u>9,101,566</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,101,566</u>	<u>0</u>
<b>Total Assets</b>	<u>\$ 18,205,752</u>	<u>\$ 17,259,005</u>	<u>\$ 59,880</u>	<u>\$ 15,957</u>	<u>\$ 18,265,632</u>	<u>\$ 17,274,962</u>
<b>NET ASSETS</b>						
Restricted:						
Capital Projects	\$ 15,893,242	\$ 14,925,261	\$ 0	\$ 0	\$ 15,893,242	\$ 14,925,261
Debt Service	99,986	212,458	0	0	99,986	212,458
Other Purposes	231,608	0	0	0	231,608	0
Unrestricted	<u>1,980,916</u>	<u>2,121,286</u>	<u>59,880</u>	<u>15,957</u>	<u>2,040,796</u>	<u>2,137,243</u>
<b>Total Net Assets</b>	<u>\$ 18,205,752</u>	<u>\$ 17,259,005</u>	<u>\$ 59,880</u>	<u>\$ 15,957</u>	<u>\$ 18,265,632</u>	<u>\$ 17,274,962</u>



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*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

Table 2 shows the changes in net assets for fiscal year 2006 in comparison to fiscal year 2005. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

**(Table 2)  
Governmental Activities**

	2006			2005		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 165,644	\$ 290,421	\$ 456,065	\$ 113,816	\$ 287,318	\$ 401,134
Operating Grants	645,877	70,185	716,062	7,372,935	65,246	7,438,181
Capital Grants	11,429,184	0	11,429,184	0	0	0
<i>General Revenues</i>						
Property Taxes	2,778,869	0	2,778,869	2,547,154	0	2,547,154
Grants and Entitlements	4,630,437	0	4,630,437	4,724,704	0	4,724,704
Other	515,049	329	515,378	9,071,034	32	9,071,066
Transfers-In	<u>(30,000)</u>	<u>30,000</u>	<u>0</u>	<u>(10,000)</u>	<u>10,000</u>	<u>0</u>
<b>Total Revenues</b>	<b>20,135,060</b>	<b>390,935</b>	<b>20,525,995</b>	<b>23,819,643</b>	<b>362,596</b>	<b>24,182,239</b>
<i>Program Expenses</i>						
Instruction	4,434,906	0	4,434,906	4,417,214	0	4,417,214
Support Services	2,873,921	0	2,873,921	2,768,616	0	2,768,616
Non-Instructional	1,500	0	1,500	2,632	0	2,632
Extracurricular	279,509	0	279,509	279,910	0	279,910
Capital Outlay	11,009,698	0	11,009,698	1,218,720	0	1,218,720
Repayment of Debt	588,779	0	588,779	9,017,874	0	9,017,874
Food Services	0	301,945	301,945	0	197,742	197,742
Materials and Supplies	<u>0</u>	<u>45,067</u>	<u>45,067</u>	<u>0</u>	<u>165,699</u>	<u>165,699</u>
<b>Total Expenses</b>	<b><u>19,188,313</u></b>	<b><u>347,012</u></b>	<b><u>19,535,325</u></b>	<b><u>17,704,966</u></b>	<b><u>363,441</u></b>	<b><u>18,068,407</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>\$ 946,747</u></b>	<b><u>\$ 43,923</u></b>	<b><u>\$ 990,670</u></b>	<b><u>\$ 6,114,677</u></b>	<b><u>\$ (845)</u></b>	<b><u>\$6,113,832</u></b>

**Governmental Activities**

Several revenue sources fund the School District's governmental activities with the school foundation program being the largest contributor. School foundation provided \$4.6 million in fiscal year 2006 and \$4.3 million in 2005. Property tax levies generated \$2.8 million in fiscal year 2006 compared to \$2.5 million in 2005. General revenues from grants and entitlements are also a large revenue generator. With the combination of taxes and intergovernmental funding of over 90% of expenses in governmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

**Allen East Local School District  
Allen County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

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

**(Table 3)  
Governmental Activities**

	2006		2005	
	Total Cost of Service	Net (Receipts) Cost of Service	Total Cost of Service	Net (Receipts) Cost of Service
Instruction	\$ 4,434,906	\$ 3,945,553	\$ 4,417,214	\$ 4,130,248
Support Services:				
Pupil and Instructional Staff	647,279	466,789	645,397	484,094
Board of Education, Business, Administration, and Fiscal Operation and Maintenance of Plant	935,436	935,436	928,437	925,479
Pupil Transportation	654,588	639,719	622,669	606,735
Central	499,492	485,289	469,372	458,943
Operation of Non-Instructional Extracurricular Activities	137,126	132,126	102,741	97,741
Capital Outlay	1,500	1,500	2,632	1,500
Repayment of Debt	279,509	155,127	279,910	176,239
	11,009,698	(402,710)	1,218,720	(5,652,083)
	588,779	588,779	9,017,874	8,989,319
<b>Total</b>	<b>\$19,188,313</b>	<b>\$ 6,947,608</b>	<b>\$ 17,704,966</b>	<b>\$ 10,218,215</b>

Instruction and student support services comprise 26% of governmental program expenses in fiscal year 2006 and 28% in fiscal year 2005. Fiscal and administration charges were 5% in 2006 and 2005. Fiscal expenses include payments to the County Auditor(s) for administrative fees and other administrative services provided by the District. Pupil transportation and the operation/maintenance of facilities account for 6% in 2006 and 2005. There have been no significant changes in governmental disbursements from the prior year.

The dependence upon foundation revenues for governmental activities is apparent.

**Business-Type Activities**

In reviewing the business-type activities' net receipts/(disbursements) resulting from cash basis transactions, activities will continue to be monitored in an effort to continue positive cash flow in the future.

**Allen East Local School District**  
**Allen County**

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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***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 2006, the School District amended its general fund budget to reflect changing circumstances. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, budget basis revenue was \$6,982,424 compared to the original budget estimates of \$7,183,890. Of this \$201,466 decrease, most was attributable to a decrease in taxes and intergovernmental revenue.

***Debt Administration***

In 2004, the School District passed a bond issue providing \$8.5 million for the purpose of an Ohio School Facilities Commission project. The District will be funded by the OSFC at 79% for their portion of the project. For further information regarding the District's debt, refer to Note 10 of the basic financial statements.

***Current Issues***

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

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.

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. Property taxes made up 14% of revenues for governmental activities for the Allen East Local School District in fiscal year 2006.



**Allen East Local School District**  
**Allen County**

*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

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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 district. How the legislature plans to fund educational programs during a weakened economy remains a concern.

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

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

***Contacting the School District's Financial Management***

This financial report is designed to provide our citizens, taxpayers, 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 Zimmerman, Treasurer of Allen East Local School District, 9520 Harrod Road, Harrod, OH 45850 or [ae\\_treas@noacsc.org](mailto:ae_treas@noacsc.org).

**Allen East Local School District  
Allen County**

*Statement of Net Assets - Modified Cash Basis  
June 30, 2006*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 9,104,186	\$ 59,880	\$ 9,164,066
Investments	9,101,566	0	9,101,566
<i>Total Assets</i>	<u>\$ 18,205,752</u>	<u>\$ 59,880</u>	<u>\$ 18,265,632</u>
<b>Net Assets</b>			
Restricted for:			
Debt Service	\$ 99,986	\$ 0	\$ 99,986
Capital Outlay	15,893,242	0	15,893,242
Other Purposes	231,608	0	231,608
Unrestricted	1,980,916	59,880	2,040,796
<i>Total Net Assets</i>	<u>\$ 18,205,752</u>	<u>\$ 59,880</u>	<u>\$ 18,265,632</u>

See accompanying notes to the basic financial statements.



**Allen East Local School District  
Allen County**

*Statement of Activities - Modified Cash Basis  
For the Year Ended June 30, 2006*

	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	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction:							
Regular	\$ 3,555,549	\$ 13,732	\$ 26,664	\$ 11,136	\$ (3,504,017)	\$ 0	\$ (3,504,017)
Special	524,189	0	380,250	0	(143,939)	0	(143,939)
Adult/Continuing	5,793	0	6,351	0	558	0	558
Other	349,375	0	51,220	0	(298,155)	0	(298,155)
Support Services:							
Pupils	458,704	25,414	147,752	0	(285,538)	0	(285,538)
Instructional Staff	188,575	1,021	6,303	0	(181,251)	0	(181,251)
Board of Education	34,753	0	0	0	(34,753)	0	(34,753)
Administration	633,907	0	0	0	(633,907)	0	(633,907)
Fiscal	212,284	0	0	0	(212,284)	0	(212,284)
Business	54,492	0	0	0	(54,492)	0	(54,492)
Operation and Maintenance of Plant	654,588	1,095	13,774	0	(639,719)	0	(639,719)
Pupil Transportation	499,492	0	8,563	5,640	(485,289)	0	(485,289)
Central	137,126	0	5,000	0	(132,126)	0	(132,126)
Operation of Non-Instructional Services	1,500	0	0	0	(1,500)	0	(1,500)
Extracurricular Activities	279,509	124,382	0	0	(155,127)	0	(155,127)
Capital Outlay	11,009,698	0	0	11,412,408	(402,710)	0	(402,710)
Repayment of Debt							
Principal	215,000	0	0	0	(215,000)	0	(215,000)
Interest	373,779	0	0	0	(373,779)	0	(373,779)
<b>Total Governmental Activities</b>	<b>19,188,313</b>	<b>165,644</b>	<b>645,877</b>	<b>11,429,184</b>	<b>(6,947,608)</b>	<b>0</b>	<b>(6,947,608)</b>
<b>Business-Type Activities:</b>							
Food Services	301,945	242,681	70,185	0	0	10,921	10,921
Materials and Supplies	45,067	47,740	0	0	0	2,673	2,673
<b>Total Business-Type Activities</b>	<b>347,012</b>	<b>290,421</b>	<b>70,185</b>	<b>0</b>	<b>0</b>	<b>13,594</b>	<b>13,594</b>
<b>Totals</b>	<b>\$ 19,535,325</b>	<b>\$ 456,065</b>	<b>\$ 716,062</b>	<b>\$ 11,429,184</b>	<b>(6,947,608)</b>	<b>13,594</b>	<b>(6,934,014)</b>
<b>General Receipts</b>							
Property Taxes Levied for:							
General Purposes					2,012,376	0	2,012,376
Debt Service					579,802	0	579,802
Capital Projects					145,823	0	145,823
Other Purposes					40,868	0	40,868
Grants and Entitlements not Restricted to Specific Programs					4,630,437	0	4,630,437
Interest					472,009	329	472,338
Proceeds on Sale of Assets					28	0	28
Miscellaneous					43,012	0	43,012
<b>Total General Receipts</b>					<b>7,924,355</b>	<b>329</b>	<b>7,924,684</b>
Transfers					(30,000)	30,000	0
<b>Total General Receipts and Transfers</b>					<b>7,894,355</b>	<b>30,329</b>	<b>7,924,684</b>
Change in Net Assets					946,747	43,923	990,670
Net Assets - Beginning of Year					17,259,005	15,957	17,274,962
Net Assets - End of Year					\$ 18,205,752	\$ 59,880	\$ 18,265,632

See accompanying notes to the basic financial statements.

**Allen East Local School District  
Allen County**

*Statement of Assets and Fund Balances - Modified Cash Basis  
Governmental Funds  
June 30, 2006*

	<u>General Fund</u>	<u>OSFC Building Fund</u>	<u>OSFC Local/State Share Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 1,980,916	\$ 0	\$ 7,073,819	\$ 49,451	\$ 9,104,186
Investments	<u>0</u>	<u>2,274,214</u>	<u>6,253,151</u>	<u>574,201</u>	<u>9,101,566</u>
<i>Total Assets</i>	<u>\$ 1,980,916</u>	<u>\$ 2,274,214</u>	<u>\$ 13,326,970</u>	<u>\$ 623,652</u>	<u>\$ 18,205,752</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	\$ 39,527	\$ 307,763	\$ 12,780,178	\$ 55,631	\$ 13,183,099
Unreserved, Undesignated, Reported in:					
General Fund	1,941,389	0	0	0	1,941,389
Special Revenue Funds	0	0	0	208,781	208,781
Debt Service Funds	0	0	0	99,986	99,986
Capital Projects Funds	<u>0</u>	<u>1,966,451</u>	<u>546,792</u>	<u>259,254</u>	<u>2,772,497</u>
<i>Total Fund Balances</i>	<u>\$ 1,980,916</u>	<u>\$ 2,274,214</u>	<u>\$ 13,326,970</u>	<u>\$ 623,652</u>	<u>\$ 18,205,752</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 - Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2006*

	General Fund	OSFC Building Fund	OSFC Local/State Share Fund	All Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property and Other Local Taxes	\$ 2,012,376	\$ 0	\$ 0	\$ 766,492	\$ 2,778,868
Intergovernmental	4,828,113	0	11,182,271	472,930	16,483,314
Interest	116,121	169,794	556,888	2,457	845,260
Tuition and Fees	13,732	0	0	1,371	15,103
Rent	1,095	0	0	3,288	4,383
Extracurricular Activities	0	0	0	143,234	143,234
Gifts and Donations	7,977	0	0	11,802	19,779
Miscellaneous	3,010	0	0	3,009	6,019
<b>Total Receipts</b>	<b>6,982,424</b>	<b>169,794</b>	<b>11,739,159</b>	<b>1,404,583</b>	<b>20,295,960</b>
<b>Disbursements</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	3,517,749	0	0	37,800	3,555,549
Special	395,761	0	0	128,428	524,189
Adult/Continuing	0	0	0	5,793	5,793
Other	298,155	0	0	51,220	349,375
<b>Support Services:</b>					
Pupils	281,149	0	0	177,555	458,704
Instructional Staff	177,834	0	0	10,741	188,575
Board of Education	34,753	0	0	0	34,753
Administration	633,907	0	0	0	633,907
Fiscal	197,619	0	0	14,665	212,284
Business	54,492	0	0	0	54,492
Operation and Maintenance of Plant	608,738	0	0	45,850	654,588
Pupil Transportation	440,482	0	0	59,010	499,492
Central	128,249	0	0	8,877	137,126
Operation of Non-Instructional Services	0	0	0	1,500	1,500
Extracurricular Activities	166,440	0	0	113,069	279,509
Capital Outlay	0	128,987	10,728,615	152,096	11,009,698
<b>Debt Service:</b>					
Principal	0	0	0	215,000	215,000
Interest	0	0	0	373,779	373,779
<b>Total Disbursements</b>	<b>6,935,328</b>	<b>128,987</b>	<b>10,728,615</b>	<b>1,395,383</b>	<b>19,188,313</b>
<b>Excess of Receipts Over Disbursements</b>	<b>47,096</b>	<b>40,807</b>	<b>1,010,544</b>	<b>9,200</b>	<b>1,107,647</b>
<b>Other Financing Sources (Uses)</b>					
Advances In	135,000	0	0	135,000	270,000
Proceeds from Sale of Capital Assets	28	0	0	0	28
Refund of Prior Year Expenditures	28,117	0	0	0	28,117
Transfers Out	(30,000)	0	0	0	(30,000)
Advances Out	(135,000)	0	0	(135,000)	(270,000)
Refund of Prior Year Receipts	0	0	0	(159,045)	(159,045)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,855)</b>	<b>0</b>	<b>0</b>	<b>(159,045)</b>	<b>(160,900)</b>
<b>Net Change in Fund Balances</b>	<b>45,241</b>	<b>40,807</b>	<b>1,010,544</b>	<b>(149,845)</b>	<b>946,747</b>
<b>Fund Balance at Beginning of Year</b>	<b>1,935,675</b>	<b>2,233,407</b>	<b>12,316,426</b>	<b>773,497</b>	<b>17,259,005</b>
<b>Fund Balance at End of Year</b>	<b>\$ 1,980,916</b>	<b>\$ 2,274,214</b>	<b>\$ 13,326,970</b>	<b>\$ 623,652</b>	<b>\$ 18,205,752</b>
<b>Encumbrances</b>	<b>\$ 39,527</b>	<b>\$ 307,763</b>	<b>\$ 12,780,178</b>	<b>\$ 55,631</b>	<b>\$ 13,183,099</b>

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, 2006*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Receipts</b>				
Property and Other Local Taxes	\$ 2,145,990	\$ 2,145,990	\$ 2,012,376	\$ (133,614)
Intergovernmental	4,940,500	4,955,500	4,828,113	(127,387)
Interest	67,450	67,450	116,121	48,671
Tuition and Fees	17,850	17,850	13,732	(4,118)
Rent	7,500	7,500	1,095	(6,405)
Gifts and Donations	1,000	1,000	7,977	6,977
Customer Sales and Services	100	100	0	(100)
Miscellaneous	3,500	3,500	3,010	(490)
<b>Total Receipts</b>	<b>7,183,890</b>	<b>7,198,890</b>	<b>6,982,424</b>	<b>(216,466)</b>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,962,386	3,962,386	3,519,650	442,736
Special	760,250	760,250	395,953	364,297
Other	345,000	345,000	298,155	46,845
<b>Support Services:</b>				
Pupils	319,652	319,652	282,604	37,048
Instructional Staff	231,625	231,625	178,061	53,564
Board of Education	68,663	68,663	34,753	33,910
Administration	794,388	794,388	634,321	160,067
Fiscal	243,056	243,056	200,171	42,885
Business	85,150	85,150	54,572	30,578
Operation and Maintenance of Plant	946,901	946,901	620,056	326,845
Pupil Transportation	677,600	677,600	460,146	217,454
Central	169,225	169,225	129,973	39,252
<b>Extracurricular Activities:</b>				
Academic Oriented Activities	39,700	39,700	16,110	23,590
Occupation Oriented Activities	2,500	2,500	1,327	1,173
Sport Oriented Activities	163,200	163,200	120,989	42,211
School and Public Service Co-Curricular Activities	49,600	49,600	28,014	21,586
<b>Capital Outlay:</b>				
Other Facilities Acquisition and Construction	75,000	75,000	0	75,000
<b>Total Disbursements</b>	<b>8,933,896</b>	<b>8,933,896</b>	<b>6,974,855</b>	<b>1,959,041</b>
<b>Excess of Receipts Over (Under) Disbursements</b>	<b>(1,750,006)</b>	<b>(1,735,006)</b>	<b>7,569</b>	<b>1,742,575</b>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	135,000	135,000
Proceeds from Sale of Capital Assets	2,500	2,500	28	(2,472)
Refund of Prior Year Expenditures	12,500	12,500	28,117	15,617
Transfers Out	(34,500)	(34,500)	(30,000)	4,500
Advances Out	0	(135,000)	(135,000)	0
Other Financing Uses	(166,170)	(31,170)	0	31,170
<b>Total Other Financing Sources (Uses)</b>	<b>(185,670)</b>	<b>(185,670)</b>	<b>(1,855)</b>	<b>183,815</b>
<b>Net Change in Fund Balances</b>	<b>(1,935,676)</b>	<b>(1,920,676)</b>	<b>5,714</b>	<b>1,926,390</b>
<b>Fund Balance at Beginning of Year</b>	<b>1,892,900</b>	<b>1,892,900</b>	<b>1,892,900</b>	<b>0</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>42,776</b>	<b>42,776</b>	<b>42,776</b>	<b>0</b>
<b>Fund Balance at End of Year</b>	<b>\$ 0</b>	<b>\$ 15,000</b>	<b>\$ 1,941,390</b>	<b>\$ 1,926,390</b>

See accompanying notes to the basic financial statements.

**Allen East Local School District  
Allen County**

*Statement of Fund Net Assets- Modified Cash Basis  
Proprietary Fund  
June 30, 2006*

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	<u>Business- Type Activity</u>
	<u>Enterprise</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 59,880</u>
<i>Total Assets</i>	<u>\$ 59,880</u>
<b>Net Assets</b>	
Unrestricted	<u>\$ 59,880</u>
<i>Total Net Assets</i>	<u>\$ 59,880</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 Net Assets - Modified Cash Basis  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2006*

	Business- Type Activity
	Enterprise
<b>Operating Receipts</b>	
Food Services	\$ 242,681
Charges for Services	47,740
<i>Total Operating Receipts</i>	290,421
<b>Operating Disbursements</b>	
Salaries	107,650
Fringe Benefits	64,767
Purchased Services	762
Materials and Supplies	173,833
<i>Total Operating Disbursements</i>	347,012
<i>Operating Loss</i>	(56,591)
<b>Non-Operating Receipts</b>	
Interest	329
Federal and State Subsidies	70,186
Operating Transfers-In	30,000
<i>Total Non-Operating Receipts</i>	100,515
<i>Change in Net Assets</i>	43,924
<i>Net Assets - Beginning of Year</i>	15,956
<i>Net Assets - End of Year</i>	\$ 59,880

See accompanying notes to the basic financial statements.

**Allen East Local School District  
Allen County**

*Statement of Fiduciary Net Assets - Modified Cash Basis  
Fiduciary Funds  
June 30, 2006*

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	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 2,277	\$ 22,735
<i>Total Assets</i>	<u>\$ 2,277</u>	<u>\$ 22,735</u>
<b>Net Assets</b>		
Held in Trust for:		
Scholarships	\$ 80	\$ 0
Student Activities	<u>2,197</u>	<u>22,735</u>
<i>Total Net Assets</i>	<u>\$ 2,277</u>	<u>\$ 22,735</u>

See accompanying notes to the basic financial statements.

**Allen East Local School District  
Allen County**

*Statement of Changes in Fiduciary Net Assets - Modified Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2006*

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	<u>Private Purpose Trust Fund</u>
<b>Additions</b>	
Investment Earnings	<u>\$ 80</u>
<b>Total Additions</b>	<u>80</u>
<i>Change in Net Assets</i>	80
<i>Net Assets - Beginning of Year</i>	<u>2,197</u>
<i>Net Assets - End of Year</i>	<u>\$ 2,277</u>

See accompanying notes to the basic financial statements.

**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District consists of three small communities and surrounding rural areas within Allen County. The School District is the 470th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 41 non-certified employees and 75 certified full-time teaching personnel who provide services to 1,066 students and other community members.

The reporting entity is comprised of the primary government and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Allen East Local School District, this includes general operations, food service, and student related activities of the School District. There are no component units.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

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

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

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

**B. Basis of Presentation - Fund Accounting**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Statement of Net Assets presents the financial condition of the governmental and business-type activities of the School District at year end. The Statement of Activities presents a comparison between direct expenses and program receipts for each program or function of the School District's governmental activities and for the business-type activities of the School District. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**FUND FINANCIAL STATEMENTS**

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental 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.
OSFC Building Fund	This fund accounts for the specific receipts to be used for road and utility improvements, bus garage, athletic field and additional miscellaneous capital projects.



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**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.

Proprietary Fund/Business-Type Activities

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

Fiduciary Fund Types

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

**C. Budgetary Process**

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

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

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

**Tax Budget**

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

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

**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Estimated Resources**

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

**Appropriations**

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

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

**Encumbrances**

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

**Lapsing of Appropriations**

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

**D. Cash and Cash Equivalents**

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



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**E. Property, Plant and Equipment**

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

**F. Compensated Absences**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified 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. The accounting for proprietary funds is the same in the fund financial statements as in the government-wide financial statements.

**H. Intergovernmental Receipts**

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

**I. Inter-fund 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 operating transfers.
2. Reimbursements from one fund to another are treated as disbursements/expenses in the reimbursing fund and a reduction in disbursements/expense in the reimbursed fund.

**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. Equity Classifications**

GOVERNMENT-WIDE STATEMENTS

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

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the school district. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

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

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

**K. Receipts, Disbursements, and Expenses**

Program Receipts

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

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

Operating Receipts and Expenses

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

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 46, “Net Assets Restricted by Enabling Legislation”. GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**Allen East Local School District**  
Allen County

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

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 all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the District's deposits was \$85,597 and the bank balance was \$2,013,179. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,813,179 was collateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

***Investments***

Investments are reported at carrying value. As of June 30, 2006, the district had the following investments:

	<u>Carrying Value</u>	Investment Maturities (in months)
		<u>0-6</u>
Federal Home Loan Banks	\$ 3,055,890	\$ 3,055,890
Federal Home Loan Mortgage Corp	2,483,430	2,483,430
Federal National Mortgage Association Notes	993,208	993,208
Govt & Agency Mutual Funds	2,569,038	2,569,038
STAR Ohio	<u>9,103,481</u>	<u>9,103,481</u>
 Total Carrying Value	 <u>\$ 18,205,047</u>	 <u>\$18,205,047</u>

***Interest Rate Risk***

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

***Credit Risk***

The District's investments at June 30, 2006, in FHLB, FHLMC and FNMA are rated AAA by Standard & Poor's while investments in Government & Agency Mutual Funds and STAR Ohio are rated AAAM by Standard & Poor's.



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS (continued)**

*Concentration of Credit Risk*

The District places no limit on the amount the district may invest in any one issuer. More than 5 percent of the District's investments are in Mutual Funds, STAR Ohio, FHLB, FHLMC, and FNMA. These investments are 14.11%, 50.01%, 16.78%, 13.64% and 5.46%, respectively, of the District's total investments for the amounts listed above.

**NOTE 5 - PROPERTY TAXES**

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

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

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second-Half Collections		2006 First-Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$80,119,350	88%	\$81,176,950	90%
Public Utility	5,139,520	6	4,528,130	5
Tangible Personal Property	<u>5,349,878</u>	<u>6</u>	<u>4,164,713</u>	<u>5</u>
Total Assessed Value	<u>\$90,608,748</u>	<u>100%</u>	<u>\$89,869,793</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$39.97		\$42.11	

**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 6 - RISK MANAGEMENT**

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, the School District contracted with O'Connor McLaughlin Insurance Company for property insurance and Harcum-Hyre Insurance for general liability insurance.

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

B. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS**

A. State Teachers Retirement System

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

STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090, or by visiting the STRS Ohio Website at [www.strsoh.org](http://www.strsoh.org).

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



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)**

Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary. The School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$360,852, \$350,283, and \$347,738, respectively; 88 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. \$48,758 represents the unpaid contribution for fiscal year 2006.

**B. School Employees Retirement System**

The Allen East Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides annual cost of living adjustments, retirement, disability, survivor, and health care benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.57 percent of annual covered salary was the portion use to fund pension obligations. For fiscal years 2005 and 2004, 9.09 percent and 5.46 percent, respectively, were used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$45,481, \$47,406, and \$42,430, respectively; 89.0 percent has been contributed for fiscal year 2006, and 100 percent for the fiscal years 2005 and 2004.

**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)**

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, 2006, two members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**NOTE 8 - POST EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired certified employees and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician fees, prescription drugs and partial 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.

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

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

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

At June 30, 2005 (the latest information available), the employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants eligible to receive benefits.

**NOTE 9 - EMPLOYEE BENEFITS - COMPENSATED ABSENCES**

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



**Allen East Local School District**  
Allen County

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 9 - EMPLOYEE BENEFITS - COMPENSATED ABSENCES (continued)**

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

**NOTE 10 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Interest Rate</u>	<u>Principal Outstanding 6/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2006</u>
<i>General Obligations</i>					
2004 Bond Issue					
Current Interest Bonds	2.50-4.60%	\$8,310,000	\$ 0	\$ 215,000	\$8,095,000
Capital Appreciation Bonds	13.77%	189,992	0	0	189,992
Accretion of Interest		24,840	30,601	0	55,441
Total General Obligations		<u>\$8,524,832</u>	<u>\$ 30,601</u>	<u>\$ 215,000</u>	<u>\$8,340,433</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 capital appreciation bonds will mature in fiscal years 2014 through 2016 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$855,000. For fiscal year 2006, \$30,601 was accreted for total bond value of \$245,433.

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

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

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

**Allen East Local School District**  
Allen County

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS (continued)**

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

<u>Year</u>	<u>Amount</u>
2026	\$440,000
2027	460,000
2028	490,000
2029	515,000
2030	535,000

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

Future principal and interest requirements as of June 30, 2006 are as follows:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Current Interest</u> <u>Bonds</u>	<u>Capital Appreciation</u> <u>Bonds</u>	<u>Interest/</u> <u>Accretion</u>	<u>Total</u>
2007	\$ 225,000	\$ 0	\$ 371,091	\$ 596,091
2008	230,000	0	365,466	595,466
2009	230,000	0	359,716	589,716
2010	240,000	0	352,816	592,816
2011	250,000	0	345,136	595,136
2012-2016	795,000	134,884	2,030,060	2,959,944
2017-2021	1,220,000	55,108	1,686,427	2,961,535
2022-2026	1,900,000	0	1,068,375	2,968,375
2027-2031	2,440,000	0	519,500	2,959,500
2032	565,000	0	28,250	593,250
<b>Total</b>	<b>\$ 8,095,000</b>	<b>\$ 189,992</b>	<b>\$ 7,126,837</b>	<b>\$ 15,411,829</b>

**NOTE 11 - STATUTORY RESERVES**

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbook</u> <u>Reserve</u>	<u>Capital</u> <u>Maintenance</u> <u>Reserve</u>
Set-aside balance as of June 30, 2005	\$ (237,996)	\$ 0
Required Set-Aside	148,973	148,973
Offsets	0	(8,540,860)
Qualifying Disbursements	(149,737)	(344,554)
<b>Total</b>	<b>\$(238,760)</b>	<b>\$ (8,736,441)</b>
Set-aside balance carried forward to FY 2007	<u>\$ (238,760)</u>	
Offset balance carried forward to FY 2007		<u>\$ (8,499,992)</u>



**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 11 - STATUTORY RESERVES (continued)**

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero. Ohio Revised Code 3315.17 allows for the extra amount to carryover into future years for textbooks. For capital acquisitions, the extra amount which was a result of capital expenditures from bond or note proceeds, was used to reduce the set-aside requirements of future years. The amount of offset available resulting from bond or note proceeds had not been recognized in the prior year; however, the offset is an allowable expenditure and has been included in the current year.

**NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS**

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

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

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

**NOTE 13 - GROUP PURCHASING POOL**

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

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

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

**Allen East Local School District**  
**Allen County**

Notes To The Basic Financial Statements  
June 30, 2006

**NOTE 14 - ACCOUNTABILITY**

At June 30, 2006, the Special Revenue, Title I 2006 Fund had a deficit cash fund balance in the amount of \$3,668. The General Fund is liable for any deficit in the District's funds and provides operating transfers when cash is required. The deficit fund balance was created at June 30, 2006, as a result of late disbursements from the grant authorities.

**NOTE 15 - OPERATING LEASES**

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

Year Ending <u>June 30,</u>	<u>Amount</u>
2007	\$ 38,740
2008	<u>11,300</u>
	<u>\$ 50,040</u>

**NOTE 16 - 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, 2006.

**NOTE 17 - CONTRACTUAL COMMITMENTS**

At June 30, 2006 the District had the following outstanding contractual commitments for the building construction project:

Contractor/Vendor	Contractual Commitment	Amount Disbursed at June 30, 2006	Balance
Fanning and Howey	\$ 1,539,499	\$ 1,400,960	\$ 138,539
Best Restaurant	351,600	76,318	275,282
Frost Mechanical	3,019,140	1,400,831	1,618,309
SA Comunale	544,456	267,790	276,666
Smith Boughan	1,445,250	657,791	787,459
New Tech Roofing	1,017,800	450,088	567,712
Mosser Construction	10,466,010	5,220,009	5,246,001
Bodie Electric	2,467,692	944,391	1,523,301
RD Jones	1,809,500	1,076,061	733,439
Sidney Electric	301,680	6,540	295,140



*We're Ready For Your Future*

August 30, 2006

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Allen East Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 30, 2006, wherein we noted that the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated [Date].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2006-01.

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

*Rea & Associates, Inc.*

**ALLEN EAST LOCAL SCHOOL DISTRICT**

**Schedule of Findings  
Year Ended June 30, 2006**

**1. Summary of Auditor's Results**

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

**2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS**

GAAP Reporting 2006-01 (repeat from FY05)

Ohio Admin. Code Section 117-2-03 requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2006, the District prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying basic financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.



**ALLEN EAST LOCAL SCHOOL DISTRICT**  
**Schedule of Prior Audit Findings**  
**Year Ended June 30, 2006**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2005-01	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.
2005-02	Appropriations in excess of estimated resources.	No	Partially Corrected – The District had one fund with an immaterial amount of appropriations in excess of estimated resources.

*Corrective Action Plan*

Responsible Contact Person: Rhonda Zimmerly, Treasurer

**Finding 2006-01: Ohio Admin. Code Section 117-2-03 (Repeat of 2004-01)**

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





**Mary Taylor, CPA**  
Auditor of State

**ALLEN EAST LOCAL SCHOOL DISTRICT**

**ALLEN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 22, 2007**