



**Auditor of State
Betty Montgomery**

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Revenues, Expenses and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	15
Statement of Fiduciary Assets and Liabilities – Agency Fund	16
Notes to the Basic Financial Statements	17
Schedule of Federal Awards Expenditures.....	39
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	40
Independent Accountants' Report on Internal Control Over Financial Reporting Required By <i>Government Auditing Standards</i> And on Compliance and Other Matters.....	41
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	43
Schedule of Findings.....	45

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Eastern Local School District
Brown County
11479 US RT 62
Sardinia, Ohio 45171

To the Board of Education

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting and compliance, that report describes the scope of our testing and internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

July 20, 2006

Eastern Local School District, Brown County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities decreased \$180,601.
- General revenues accounted for \$9,687,092 in revenue or 77% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$2,930,837 or 23% of total revenues of \$12,617,929.
- The School District had \$12,798,530 in expenses related to governmental activities; only \$2,930,837 of these expenses were offset by program specific charges for services, operating grants and contribution and capital grants and contributions.
- The School District has two major funds which are the General Fund and the Bond Retirement Fund. The General Fund had \$10,425,360 in revenues and \$10,639,369 in expenditures resulting in a decrease in fund balance of \$214,009. The Bond Retirement Fund had \$359,876 in revenues and \$303,010 in expenditures resulting in an increase in fund balance of \$56,866.

USING THIS ANNUAL FINANCIAL REPORT

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look as the School District's most significant funds with all other non-major funds presented in total in one column.

Eastern Local School District, Brown County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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 restricting revenue growth, facility conditions, required educational programs, and other factors.

- In the Statement of Net Assets and the Statement of Activities, the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement 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 fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds The School District only has agency funds. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We excluded these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Eastern Local School District, Brown County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$5,467,349	\$5,480,653
Capital Assets	11,700,474	12,039,602
Total Assets	<u>17,167,823</u>	<u>17,520,255</u>
Liabilities		
Long-term Liabilities	3,365,621	3,502,161
Other Liabilities	3,758,649	3,793,940
Total Liabilities	<u>7,124,270</u>	<u>7,296,101</u>
Net Assets		
Invested in Capital Assets, Net of Debt	8,980,474	9,199,602
Restricted	1,149,482	1,080,688
Unrestricted	(86,403)	(56,136)
Total Net Assets	<u>\$10,043,553</u>	<u>\$10,224,154</u>

The change in capital assets is primarily due to depreciation expense of \$432,518 which was partially offset by additions of \$112,372. Total net assets of the District as a whole decreased \$180,601, mainly due to the District's current year depreciation expense. Long-term liabilities declined primarily due to debt service principal payments of \$120,000 during 2005.

Total net assets of the District as a whole decreased \$180,601, mainly due to the District's current year depreciation expense.

Eastern Local School District, Brown County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2005 and 2004.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u> <u>2005</u>	<u>Governmental Activities</u> <u>2004</u>
Revenues		
Program Revenues		
Charges for Services and Sales	\$842,601	\$761,235
Operating Grants and Contributions	2,079,958	1,918,732
Capital Grants and Contributions	8,278	46,268
Total Program Revenues	<u>2,930,837</u>	<u>2,726,235</u>
General Revenues		
Property Taxes	2,837,356	2,654,284
Payments in Lieu of Taxes	73,630	85,102
Grants and Entitlements, Not Restricted to Specific Programs	6,642,543	6,384,275
Investment Earnings	48,681	26,656
Gifts and Donations, Not Restricted to Specific Programs	4,880	1,014
Miscellaneous	80,002	100,592
Total General Revenues	<u>9,687,092</u>	<u>9,251,923</u>
Total Revenues	<u>12,617,929</u>	<u>11,978,158</u>
Program Expenses		
Instruction:		
Regular	5,456,688	5,246,449
Special	1,156,907	1,208,405
Vocational	195,575	162,779
Other	504,976	403,198
Support Services:		
Pupil	446,375	446,472
Instructional Staff	968,021	1,069,952
Board of Education	40,908	32,047
Administration	956,235	867,985
Fiscal	364,567	374,257
Business	9,029	9,845
Operation and Maintenance of Plant	910,142	831,957
Pupil Transportation	867,855	811,778
Central	43,416	43,329
Operation of Non-Instructional Services	503,465	496,704
Extracurricular Activities	200,621	254,692
Intergovernmental	-	27,000
Interest and Fiscal Charges	173,750	180,938
Total Expenses	<u>12,798,530</u>	<u>12,467,787</u>
Decrease in Net Assets	(180,601)	(489,629)
Net Assets, Beginning of Year	<u>10,224,154</u>	<u>10,713,783</u>
Net Assets, End of Year	<u>\$ 10,043,553</u>	<u>\$ 10,224,154</u>

Eastern Local School District, Brown County

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

Governmental Activities

Charges for services and sales comprised 7 percent of revenue for governmental activities, while operating grants and contributions comprised 16 percent of revenue for governmental activities, and capital grants and contributions comprised 0.1 percent of revenue for governmental activities of the School District for fiscal year 2005.

General revenues of \$9,687,092 provide 77% of total revenues. Of this total, property taxes make up 29% and unrestricted grants and entitlements make up 69% of total general revenues.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 43 percent of governmental program expenses with Special Instruction comprising 9 percent of governmental expenses.

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 unrestricted State entitlements, property taxes, and other general revenues.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Instruction	\$7,314,146	\$5,936,836	\$7,020,831	\$5,975,385
Support Services	4,606,548	3,646,691	4,487,622	3,636,695
Operation of Non-Instructional Services	503,465	53,640	496,704	(81,876)
Extracurricular Activities	200,621	77,538	254,692	58,698
Intergovernmental	-	-	27,000	8,534
Interest and Fiscal Charges	173,750	152,988	180,938	144,116
Total	<u>\$12,798,530</u>	<u>\$9,867,693</u>	<u>\$12,467,787</u>	<u>\$9,741,552</u>

THE SCHOOL DISTRICT FUNDS

The School District's major governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,573,417 and expenditures of \$12,788,337. The most significant change in fund balance was in the General Fund.

The fund balance of the General Fund decreased by \$214,009. This decrease was primarily due to an increase of employees retiring and severance payouts to those employees.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the School District amended its General Fund budget, but not significantly.

During 2005, there were several revisions to the General Fund budget. In part, these revisions increased estimated resources by \$289,829 and increased appropriations by \$567,126. The increase in appropriation was due to expenditures relating to a grant received by the District during the fiscal year. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General fund's ending unobligated cash balance was \$195,087 above the final budgeted amount.

Eastern Local School District, Brown County

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$11,700,474 invested in its capital assets. For additional information on capital assets, see Note 12 to the basic financial statements. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$380,287	\$380,287
Buildings and Improvements	10,021,512	10,278,851
Furniture and Equipment	947,396	1,020,004
Vehicles	351,279	360,460
Totals	<u>\$11,700,474</u>	<u>\$12,039,602</u>

Changes in capital assets from the prior year resulted from additions, disposals and depreciation.

Debt

At June 30, 2005, the School District had a general obligation bond outstanding of \$2,720,000. The bond was issued for the purpose of constructing, remodeling, reconstructing and adding to school buildings. For additional information on debt, see Note 13 to the basic financial statements.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and 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 Kevin Kendall, Treasurer at Eastern Local School District, PO Box 500, Sardinia, Ohio 45171.

Eastern Local School District, Brown County
Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 2,366,141
Intergovernmental Receivable	140,233
Taxes Receivable	2,924,216
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	36,759
Non-Depreciable Capital Assets	380,287
Depreciable Capital Assets, net	11,320,187
<i>Total Assets</i>	17,167,823
LIABILITIES:	
Current Liabilities:	
Accounts Payable	20,875
Accrued Wages and Benefits	1,028,377
Intergovernmental Payable	371,928
Matured Compensated Absences Payable	46,768
Deferred Revenue	2,290,701
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	128,274
Due in More Than One Year	3,237,347
<i>Total Liabilities</i>	7,124,270
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	8,980,474
Restricted for Debt Service	667,063
Restricted for Capital Outlay	28,048
Restricted for Other Purposes	454,371
Unrestricted	(86,403)
<i>Total Net Assets</i>	\$ 10,043,553

The notes to the basic financial statements are an integral part of this statement.

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

	<u>Program Revenues</u>			Net(Expense) Revenue and Changes in Net Assets	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities:					
Instruction:					
Regular	\$ 5,456,688	\$ 283,611	\$ 260,110	\$ 1,313	\$ (4,911,654)
Special	1,156,907	120,769	618,342	-	(417,796)
Vocational	195,575	8,787	64,242	-	(122,546)
Other	504,976	20,136	-	-	(484,840)
Support Services:					
Pupils	446,375	21,856	14,809	348	(409,362)
Instructional Staff	968,021	95,992	198,378	-	(673,651)
Board of Education	40,908	1,631	-	-	(39,277)
Administration	956,235	48,087	34,492	-	(873,656)
Fiscal	364,567	14,440	2,502	147	(347,478)
Business	9,029	360	-	-	(8,669)
Operation and Maintenance of Plant	910,142	43,301	31,093	3,514	(832,234)
Pupil Transportation	867,855	30,490	408,111	2,956	(426,298)
Central	43,416	2,996	4,354	-	(36,066)
Operation of Non-Instructional Services	503,465	116,243	333,582	-	(53,640)
Extracurricular Activities	200,621	33,902	89,181	-	(77,538)
Interest and Fiscal Charges	173,750	-	20,762	-	(152,988)
<i>Total Governmental Activities</i>	<u>\$ 12,798,530</u>	<u>\$ 842,601</u>	<u>\$ 2,079,958</u>	<u>\$ 8,278</u>	<u>(9,867,693)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					2,386,494
Building Maintenance					49,937
Debt Service					333,408
Permanent Improvement					67,517
Grants and Entitlements not Restricted to Specific Programs					6,642,543
Gifts and Donations not Restricted to Specific Programs					4,880
Investment Earnings					48,681
Payments in Lieu of Taxes					73,630
Miscellaneous					80,002
<i>Total General Revenues</i>					<u>9,687,092</u>
<i>Change in Net Assets</i>					(180,601)
<i>Net Assets Beginning of Year</i>					<u>10,224,154</u>
<i>Net Assets End of Year</i>					<u>\$ 10,043,553</u>

The notes to the basic financial statements are an integral part of this statement.

Eastern Local School District, Brown County
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,307,543	\$ 588,972	\$ 469,626	\$ 2,366,141
Intergovernmental Receivable	-	-	140,233	140,233
Taxes Receivable	2,574,087	201,025	149,104	2,924,216
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	36,759	-	-	36,759
<i>Total Assets</i>	<u>3,918,389</u>	<u>789,997</u>	<u>758,963</u>	<u>5,467,349</u>
LIABILITIES:				
Accounts Payable	15,188	-	5,687	20,875
Accrued Wages and Benefits	959,538	-	68,839	1,028,377
Intergovernmental Payable	312,625	-	59,303	371,928
Mature Compensated Absences Payable	46,768	-	-	46,768
Deferred Revenue	2,184,855	143,159	195,769	2,523,783
<i>Total Liabilities</i>	<u>3,518,974</u>	<u>143,159</u>	<u>329,598</u>	<u>3,991,731</u>
Equity:				
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	27,218	-	17,485	44,703
Reserved for Property Taxes	389,232	57,866	19,645	466,743
Reserved for Budget Stabilization	36,759	-	-	36,759
Unreserved, Undesignated, Reported in:				
General Fund	(53,794)	-	-	(53,794)
Special Revenue Funds	-	-	232,855	232,855
Debt Service Funds	-	588,972	-	588,972
Capital Projects Funds	-	-	159,380	159,380
<i>Total Fund Balances</i>	<u>399,415</u>	<u>646,838</u>	<u>429,365</u>	<u>1,475,618</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,918,389</u>	<u>\$ 789,997</u>	<u>\$ 758,963</u>	<u>\$ 5,467,349</u>

The notes to the basic financial statements are an integral part of this statement.

Eastern Local School District, Brown County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances \$ 1,475,618

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 11,700,474

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	166,772	
Intergovernmental	66,310	
Total	233,082	233,082

Long-Term Liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(645,621)	
General Obligation Bonds	(2,720,000)	
Total	(3,365,621)	(3,365,621)

Net Assets of Governmental Activities \$ 10,043,553

The notes to the basic financial statements are an integral part of this statement.

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

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property Taxes	\$ 2,369,352	\$ 330,780	\$ 117,578	\$ 2,817,710
Intergovernmental	7,471,260	21,869	1,212,784	8,705,913
Investment Earnings	48,178	-	503	48,681
Tuition and Fees	412,828	-	49,995	462,823
Rent	5,145	-	-	5,145
Extracurricular Activities	-	-	100,273	100,273
Gifts and Donations	4,297	-	583	4,880
Customer Sales and Services	-	-	274,360	274,360
Payments in Lieu of Taxes	63,407	7,227	2,996	73,630
Miscellaneous	50,893	-	29,109	80,002
<i>Total Revenues</i>	<u>10,425,360</u>	<u>359,876</u>	<u>1,788,181</u>	<u>12,573,417</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,841,830	-	378,545	5,220,375
Special	797,338	-	355,052	1,152,390
Vocational	186,867	-	5,407	192,274
Other	504,976	-	-	504,976
Support Services:				
Pupils	440,557	-	25,013	465,570
Instructional Staff	740,524	-	278,674	1,019,198
Board of Education	40,908	-	-	40,908
Administration	904,236	-	48,642	952,878
Fiscal	363,130	9,260	3,864	376,254
Business	9,029	-	-	9,029
Operation and Maintenance of Plant	836,815	-	89,347	926,162
Pupil Transportation	813,267	-	39,857	853,124
Central	37,416	-	6,000	43,416
Operation of Non-Instructional Services	25,661	-	492,665	518,326
Extracurricular Activities	96,815	-	122,892	219,707
Debt Service:				
Principal	-	120,000	-	120,000
Interest	-	173,750	-	173,750
<i>Total Expenditures</i>	<u>10,639,369</u>	<u>303,010</u>	<u>1,845,958</u>	<u>12,788,337</u>
<i>Net Change in Fund Balances</i>	<u>(214,009)</u>	<u>56,866</u>	<u>(57,777)</u>	<u>(214,920)</u>
<i>Fund Balances at Beginning of Year</i>	<u>613,424</u>	<u>589,972</u>	<u>487,142</u>	<u>1,690,538</u>
<i>Fund Balances at End of Year</i>	<u>\$ 399,415</u>	<u>\$ 646,838</u>	<u>\$ 429,365</u>	<u>\$ 1,475,618</u>

The notes to the basic financial statements are an integral part of this statement.

Eastern Local School District, Brown County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (214,920)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	112,372	
Current Year Depreciation	(432,518)	
Total	(320,146)	(320,146)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

Loss on Disposal of Capital Assets		(18,982)
------------------------------------	--	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	19,646	
Intergovernmental	24,866	
Total	44,512	44,512

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

120,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in Compensated Absences	16,540	
Decrease in Intergovernmental Payable	192,395	
Total	208,935	208,935

Net Change in Net Assets of Governmental Activities \$ (180,601)

The notes to the basic financial statements are an integral part of this statement.

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 10,177,612	\$10,467,441	\$ 10,380,441	\$ (87,000)
Total Expenditures and Other Financing Uses	<u>10,112,263</u>	<u>10,679,389</u>	<u>10,397,302</u>	<u>282,087</u>
Net Change in Fund Balance	65,349	(211,948)	(16,861)	195,087
Fund Balance at Beginning of Year	1,306,084	1,306,084	1,306,084	-
Prior Year Encumbrances Appropriated	<u>20,611</u>	<u>20,611</u>	<u>20,611</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,392,044</u>	<u>\$ 1,114,747</u>	<u>\$ 1,309,834</u>	<u>\$ 195,087</u>

The notes to the basic financial statements are an integral part of this statement.

Eastern Local School District, Brown County
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 31,638</u>
LIABILITIES:	
Undistributed Monies	<u>\$ 31,638</u>

The notes to the basic financial statements are an integral part of this statement.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Eastern 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 was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 75 square miles. It is located in Brown County and includes the Villages of Macon and Russellville and various townships within the County. It is staffed by 74 non-certified and 104 teaching personnel and administrative employees providing education to 1,559 students and other community members.

Reporting Entity

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

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

Entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District. These entities include the Boosters Club, Parent Teacher Organizations, and Alumni Associations.

The School District is associated with four organizations, two of which are defined as jointly governed organizations, two as insurance purchasing pools of which one is also a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), Hopewell Special Education Regional Resource Center (Hopewell), and the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP). The Brown County Schools Benefits Consortium is made up of a public entity shared risk pool and an insurance purchasing pool. These organizations are presented in Notes 14, 15 and 16 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District's functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts. The funds of the School District fall within two categories, governmental and fiduciary.

Governmental Funds

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

General Fund

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

Bond Retirement Fund

The Bond Retirement fund is a fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School Districts own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District's only agency funds are those used to account for student-managed activities.

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

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. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-Major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

Basis of Accounting

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 6) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Process

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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

Cash and Cash Equivalents

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

During fiscal year 2005, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Mortgage Corp. Bonds, Money Market Savings and repurchase agreements. Repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund and the food service fund during fiscal year 2005 amounted to \$48,178 and \$503.

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.

Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000 dollars. The School District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The District does not capitalize interest for fixed asset purchases. All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation (continued)

Description	Estimated Lives
Building and Improvements	30-40 years
Improvements other than Buildings	10-20 years
Furniture and Equipment	5-20 years
Vehicles	5 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

Accrued Liabilities and Long-term Obligations

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants whose use is restricted by grant agreements.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity

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

Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America, but not available for appropriation under State statute.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represents amounts required by statute to be set-aside by the School District for budget stabilization. See Note 17 for additional information regarding set-asides.

Estimates

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers." GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin and GASB Statement No. 40 had no effect on the District's financial statements.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	(\$214,009)
Adjustments:	
Revenue Accruals	(44,919)
Expenditure Accruals	262,679
Encumbrances	<u>(20,612)</u>
Budget Basis	<u><u>(\$16,861)</u></u>

NOTE 5 - 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the 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. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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.

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 the 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.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

Deposits: The School District's deposits are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At fiscal year-end, the carrying amount of the School District's deposits was \$492,933 and the bank balance was \$575,736. Of the bank balance, \$192,545 was covered by federal depository insurance (Category 1) and \$383,191 was uninsured and uncollateralized and exposed to custodial credit risk (Category 3). Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

	Carrying/Fair Value	Weighted Average Maturity (Years)
STAR Ohio	\$ 1,008,711	0
Federal Home Loan Mtg. Corp. Bonds	251,172	1.4
Repurchase Agreements	681,722	0
Total Investment	<u>\$ 1,941,605</u>	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to Repurchase Agreements, Federal Home Loan Mortgage Corporation Bonds, and STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor's. The Federal Home Loan Mortgage Corporation Bonds are rated AAA by Standard & Poors and Aaa by Moody's.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy allows investments as authorized in the Ohio Revised Code. The District has invested 35% of its investments in repurchase agreements, 13% in Federal Home Loan Mortgage Corporation Bonds, and 52% in STAR Ohio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in Federal Home Loan Mortgage Corporation Bonds and STAR Ohio are either insured and registered in the name of the District or at least registered in the name of the District. The investments in repurchase agreements are subject to custodial credit risk.

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	
	Deposits	Investments
Basic Financial Statements	\$2,434,538	\$0
Investments:		
Federal Home Loan Mtg. Corp. Bonds	(251,172)	251,172
STAR Ohio	(1,008,711)	1,008,711
Repurchase Agreements	(681,722)	681,722
GASB Statement No. 3	<u>\$492,933</u>	<u>\$1,941,605</u>

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2005 for real and public utility property taxes represents collections of calendar 2004 taxes. Property tax payments received during calendar 2005 for tangible personal property (other than public utility property) are for calendar 2005 taxes.

2005 real property taxes are levied after April 1, 2005, on the assessed value as of January 1, 2005, the lien date.

Assessed values are established by State law at thirty-five percent of appraised market value. First half 2005 real property taxes are collected in and intended to finance fiscal year 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2005 and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - PROPERTY TAXES (Continued)

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

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$108,137,480	91.84%	\$110,865,170	91.97%
Public Utility	6,637,640	5.64%	6,831,896	5.67%
Tangible-Personal Property	2,967,397	2.52%	2,831,896	2.35%
Total Assessed Value	\$117,742,517	100.00%	\$120,540,016	100.00%
Tax rate per \$1,000 of Assessed valuation	\$37.80		\$37.80	

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

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2005, was \$389,232 in the General Fund \$57,866 in the Debt Service Fund, \$19,645 in all other governmental funds.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes, accounts (tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds. Tuition is also considered collectible in full due to the withholding of diplomas and grade cards.

A summary of the intergovernmental receivables follows at June 30, 2005:

	<u>Amounts</u>
Non-Major Funds:	
Title I	\$ 73,708
Improving Teacher Quality, Title II-A	22,054
Technology, Title II-D	4,309
Safe and Drug Free Schools, Title IV-A	1,719
Innovative Programs, Title V	4,606
Special Education, Part B IDEA	22,537
Literacy Improvement Grant	<u>11,300</u>
Total Intergovernmental Receivables	<u>\$ 140,233</u>

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Selective Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$4,000,000 aggregate. Property is protected by the Selective Insurance Company and holds a \$10,000 deductible. The School District's vehicles are covered by the Selective Insurance Company and hold a \$500 deductible for both comprehensive and collision with a \$1,000,000 limit on any accident. Vehicles are also covered under the commercial umbrella policy.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction of coverage from the prior year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity risk pool (Note 16) consisting of seven districts. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available, stand alone report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions to SERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$213,554, \$233,819, and \$147,853 respectively; 17 percent has been contributed for fiscal year 2005, and 100 percent for the fiscal years 2004 and 2003. \$177,457 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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 designed beneficiary is entitled to receive the member’s account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (SRP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

For fiscal year 2005, plan members were required to contribute 10% of their annual covered salary and the School District was required to contribute 14%; 13% was the portion allocated 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, 2005, 2004, and 2003 were \$646,678, \$639,734, and \$658,848 respectively; 86% has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$88,027 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$7,140 for fiscal year 2005.

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

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$123,302.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.6 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 days of sick leave for each year under contract. Sick leave may be accumulated up to a maximum of 200 days for teachers and classified personnel. Administrators with a 242 day contract may accumulate up to a maximum of 266 days, with a 222 day contract may accumulate up to a maximum of 244 days, and with a 202 day contract may accumulate up to 222 days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 215 days for teachers, administrators, and classified personnel.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - EMPLOYEE BENEFITS (Continued)

B. Other Employee Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Fortis. Dental insurance is provided by the School District to all employees through CoreSource. Vision insurance is provided by the School District to all employees through Vision Service Plan.

C. Early Retirement Incentive

The School District offers an Early Retirement Incentive (Super-Severance) program to all certified employees. The employee must retire in the first year they become eligible. For these employees, they must give written notice to the Superintendent by April 1st of the year he/she becomes eligible for "full retirement".

NOTE 12 - CAPITAL ASSETS

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

	Ending Balance 6/30/2004	Additions	Deletions	Ending Balance 6/30/2005
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 380,287	\$ -	\$ -	\$ 380,287
Total Capital Assets, Not Being Depreciated	380,287	-	-	380,287
Capital Assets Being Depreciated				
Buildings and Improvements	12,883,861	-	-	12,883,861
Furniture and Equipment	2,371,435	54,472	(134,925)	2,290,982
Vehicles	1,066,814	57,900	-	1,124,714
Total Capital Assets Being Depreciated	16,322,110	112,372	(134,925)	16,299,557
Less: Accumulated Depreciation:				
Buildings and Improvements	(2,605,010)	(257,339)	-	(2,862,349)
Furniture and Equipment	(1,351,431)	(108,098)	115,943	(1,343,586)
Vehicles	(706,354)	(67,081)	-	(773,435)
Total Accumulated Depreciation	(4,662,795)	(432,518)	115,943	(4,979,370)
Total Capital Assets Being Depreciated, Net	11,659,315	(320,146)	(18,982)	11,320,187
Governmental Capital Assets, Net	\$12,039,602	(\$320,146)	(\$18,982)	\$11,700,474

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$324,076
Special	4,097
Vocational	3,725
Support Services:	
Pupils	1,545
Instructional Staff	5,716
Administration	1,572
Fiscal	1,418
Operation and Maintenance of Plant	4,237
Pupil Transportation	68,008
Operation of Non-Instructional Services	18,124
Total Depreciation Expense	<u>\$432,518</u>

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 13 - LONG-TERM OBLIGATIONS

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

	<u>Principal Outstanding 6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/05</u>	<u>Due Within One Year</u>
School Construction/Remodeling Bonds 1995 6.25%	\$2,840,000	\$0	\$120,000	\$2,720,000	\$125,000
Compensated Absences	<u>662,161</u>	<u>645,621</u>	<u>662,161</u>	<u>645,621</u>	<u>3,274</u>
Total Governmental Activities	<u><u>\$3,502,161</u></u>	<u><u>\$645,621</u></u>	<u><u>\$782,161</u></u>	<u><u>\$3,365,621</u></u>	<u><u>\$128,274</u></u>

On March 1, 1995, the Eastern Local School District issued \$3,340,000 in voted general obligation bonds for the purpose of constructing, remodeling, reconstructing and adding to school buildings. The bonds were issued for a twenty - three year period with final maturity in 2018. The bonds will be retired from the debt service fund.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$8,128,601 with an unvoted debt margin of \$120,540 at June 30, 2005. Principal and interest requirements to retire general obligation debt at June 30, 2005 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$125,000	\$166,094	\$291,094
2007	135,000	157,969	\$292,969
2008	140,000	149,375	\$289,375
2009	150,000	140,313	\$290,313
2010	160,000	130,625	\$290,625
2011-2015	1,110,000	468,125	\$1,578,125
2016-2018	900,000	86,250	\$986,250
Totals	<u><u>\$2,720,000</u></u>	<u><u>\$1,298,751</u></u>	<u><u>\$4,018,751</u></u>

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$71,549 for all services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

NOTE 15 - INSURANCE PURCHASING POOL

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past-President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 16 - PUBLIC ENTITY SHARED RISK POOL

Brown County Schools Benefits Consortium

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Medical Mutual of Ohio to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other

Eastern Local School District, Brown County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - PUBLIC ENTITY SHARED RISK POOL (Continued)

Brown County Schools Benefits Consortium (Continued)

hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, CoreSource. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year ended June 30, 2005, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance of June 30, 2004	\$ 0	\$ 0	\$36,759
Current Year Set-aside Requirement	213,623	213,623	0
Current Year Offsets	0	(115,264)	0
Prior Year Carryforward	(86,323)	0	0
Qualifying Disbursements	(302,753)	(100,389)	0
Set-aside Balance Carried Forward to Future Years	(\$175,453)	(\$2,031)	\$36,759
Set-aside Reserve Balance as of June 30, 2005			<u>\$36,759</u>

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for the Textbook and Capital Acquisition Reserves. Offsets and qualifying disbursements exceeding current year set-aside requirements for Textbooks and Capital Assets may be used to reduce the set-aside requirements of future years.

The total reserve balance for the set-asides at the end of the fiscal year was \$36,759.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 18 - 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

NOTE 19 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2005, the Lunchroom and the Summer Intervention Special Revenue Funds had fund balance deficits of \$5,137 and \$4,109, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

This page intentionally left blank.

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$50,617	\$0	\$50,617
National School Breakfast Program	05-PU-04 05-PU-05	10.553 10.553	\$4,715 \$27,608 <u>\$32,323</u>		\$9,215 \$27,608 <u>\$36,823</u>	
National School Lunch Program	LL-P4-04 LL-P4-05	10.555 10.555	22,004 142,590 <u>164,594</u>		22,004 142,590 <u>164,594</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>196,917</u>	<u>50,617</u>	<u>201,417</u>	<u>50,617</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States	6B-SD-04 6B-SD-05 6B-SF-04 6B-SF-05 (Passed Through CFHESC) N/A	84.027 84.027 84.027 84.027 84.027	11,118 22,500 27,091 281,663 51,411 <u>393,783</u>	0	13,916 19,737 37,896 269,893 24,140 <u>365,582</u>	0
Title I Grants to Local Educational Agencies	CI-S1-04 C1-S1-05	84.010 84.010	21,372 295,419 <u>316,791</u>	0	48,237 295,419 <u>343,656</u>	0
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-04 DR-S1-05	84.186 84.186	2,900 10,511 <u>13,411</u>	0	3,357 10,511 <u>13,868</u>	0
Innovative Educational Program Strategies	C2-S1-04 C2-S1-05	84.298 84.298	0 9,032 <u>9,032</u>	0	2,724 9,032 <u>11,756</u>	0
Improving Teacher Quality	TR-S1-04 TR-S1-05	84.367 84.367	1,289 96,097 <u>97,386</u>	0	10,376 95,829 <u>106,205</u>	0
Technology Literacy Challenge Grant	TJ-S1-05	84.318	7,499	0	8,318	0
Safe and Drug-Free School and Communities National Program	T4-S1-04	84.184C	0	0	508	0
Total Department of Education			<u>837,902</u>	<u>0</u>	<u>849,893</u>	<u>0</u>
Totals			<u><u>\$1,034,819</u></u>	<u><u>\$50,617</u></u>	<u><u>\$1,051,310</u></u>	<u><u>\$50,617</u></u>

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

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B— NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received. Cash receipts from the U.S Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Eastern Local School District
Brown County
11479 US RT 62
Sardinia, Ohio 45171

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses. In a separate letter to the District's management dated July 20, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated July 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

We intend this report for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

July 20, 2006



Auditor of State Betty Montgomery

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

Eastern Local School District
Brown County
11479 US RT 62
Sardinia, Ohio 45171

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

July 20, 2006

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

EASTERN LOCAL SCHOOL DISTRICT

BROWN 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
AUGUST 17, 2006**