



**Auditor of State
Betty Montgomery**

**EASTERN LOCAL SCHOOL DISTRICT
PIKE 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 | 11 |
| Statement of Activities | 12 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 13 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..... | 15 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund..... | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – Title I Fund..... | 18 |
| Statement of Fund Net Assets – Governmental Activities – Internal Service Fund | 19 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets Governmental Activities – Internal Service Fund..... | 20 |
| Statement of Cash Flows – Governmental Activities – Internal Service Fund | 21 |
| Statement of Fiduciary Assets and Liabilities – Agency Funds | 22 |
| Notes to the Basic Financial Statements | 23 |
| Schedule of Federal Awards Receipts and Expenditures..... | 45 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures..... | 46 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 47 |
| 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 | 49 |
| Schedule of Findings - <i>OMB Circular A-133 §.505</i> | 51 |
| Schedule of Prior Audit Findings and Questioned Costs - <i>OMB Circular A-133 §.315(b)</i> | 53 |

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Eastern Local School District
Pike County
1170 Tile Mill Road
Beaver, Ohio 45613

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 the Eastern Local School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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, Pike County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparisons for the General Fund and Title I 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 June 21, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures 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 Schedule of Federal Awards Receipts and Expenditures 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.



Betty Montgomery
Auditor of State

June 21, 2006

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

The discussion and analysis of the 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 \$748,556.
- General revenues accounted for \$5,712,936 in revenue or 74% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$2,027,236 or 26% of total revenues of \$7,740,172.
- The School District had \$8,488,728 in expenses related to governmental activities; only \$2,027,236 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$5,712,936 were used to provide for a portion of the cost of these programs.
- The School District has three major funds; the General Fund, Bond Retirement Fund, and the Title I Fund. The General Fund's balance decreased \$147,000. The Bond Retirement balance increased \$53,389. The Title I Fund balance decreased \$12,474.

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 at the School District's major funds with all other non-major funds presented in total in one column.

Eastern Local School District
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 non-fiduciary 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, all of 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 statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds. The School District's major governmental funds are the General Fund, Title I Special Revenue 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.

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

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.

Proprietary Funds – The School District maintains a proprietary fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for dental claims. The proprietary fund financial statements can be found on pages 19-21 of this report.

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 exclude 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.

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 | \$3,331,315 | \$3,792,278 |
| Capital Assets | 22,845,121 | 23,259,156 |
| Total Assets | 26,176,436 | 27,051,434 |
| Liabilities | | |
| Long-term Liabilities | 1,358,735 | 1,474,393 |
| Other Liabilities | 1,500,658 | 1,511,442 |
| Total Liabilities | 2,859,393 | 2,985,835 |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 21,735,121 | 22,099,242 |
| Restricted | 1,141,417 | 1,522,504 |
| Unrestricted | 440,505 | 443,853 |
| Total Net Assets | \$23,317,043 | \$24,065,599 |

Total net assets of the School District as a whole decreased \$748,556. The decrease to capital assets was due to current year depreciation expense. Current and Other Assets decreased cash held by the School District due to an increase in expenditures. Restricted Net Assets decreased from the prior year due to the classroom facilities project being in final stages.

Eastern Local School District
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 year ended June 30, 2005 as compared to 2004.

Table 2
Changes in Net Assets

| | Governmental Activities 2005 | Governmental Activities 2004 |
|---|------------------------------------|------------------------------------|
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$356,688 | \$261,610 |
| Operating Grants and Contributions | 1,670,548 | 1,765,885 |
| Capital Grants and Contributions | 0 | 20,075 |
| Total Program Revenues | <u>2,027,236</u> | <u>2,047,570</u> |
| General Revenues | | |
| Property Taxes | 870,900 | 884,456 |
| Grants and Entitlements | 4,758,234 | 4,534,631 |
| Investment Earnings | 34,562 | 38,627 |
| Gifts and Donations | 4,320 | 270 |
| Gain on Disposal of Capital Assets | 0 | 1,211 |
| Miscellaneous | 44,920 | 34,524 |
| Total General Revenues | <u>5,712,936</u> | <u>5,493,719</u> |
| Total Revenues | <u>7,740,172</u> | <u>7,541,289</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | 3,638,022 | 3,848,402 |
| Special | 647,928 | 882,697 |
| Vocational | 58,193 | 62,022 |
| Other | 970,452 | 831,354 |
| Support Services: | | |
| Pupil | 321,395 | 376,001 |
| Instructional Staff | 301,437 | 326,212 |
| Board of Education | 28,506 | 14,158 |
| Administration | 570,633 | 661,343 |
| Fiscal | 203,078 | 195,928 |
| Operation and Maintenance of Plant | 582,719 | 557,027 |
| Pupil Transportation | 649,890 | 625,738 |
| Central | 46,827 | 56,942 |
| Operation of Non-Instructional Services | 289,157 | 284,129 |
| Extracurricular Activities | 121,468 | 103,832 |
| Interest and Fiscal Charges | 59,023 | 60,948 |
| Total Expenses | <u>8,488,728</u> | <u>8,886,733</u> |
| Decrease in Net Assets | (748,556) | (1,345,444) |
| Net Assets Beginning of Year | 24,065,599 | 25,411,043 |
| Net Assets End of Year | <u>\$23,317,043</u> | <u>\$24,065,599</u> |

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

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2005 as compared to 2004. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | 2005 | 2005 | 2004 | 2004 |
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$3,638,022 | \$2,884,346 | \$3,848,402 | \$3,274,805 |
| Special | 647,928 | 426,742 | 882,697 | 324,318 |
| Vocational | 58,193 | 56,227 | 62,022 | 60,499 |
| Other | 970,452 | 937,561 | 831,354 | 810,868 |
| Support Services: | | | | |
| Pupil | 321,395 | 226,300 | 376,001 | 260,129 |
| Instructional Staff | 301,437 | 200,022 | 326,212 | 226,232 |
| Board of Education | 28,506 | 27,540 | 14,158 | 13,743 |
| Administration | 570,633 | 514,119 | 661,343 | 619,156 |
| Fiscal | 203,078 | 190,054 | 195,928 | 187,402 |
| Operation and Maintenance of Plant | 582,719 | 560,968 | 557,027 | 534,735 |
| Pupil Transportation | 649,890 | 248,166 | 625,738 | 268,607 |
| Central | 46,827 | 38,867 | 56,942 | 55,558 |
| Operation of Non-Instructional Services | 289,157 | 27,630 | 284,129 | 78,936 |
| Extracurricular Activities | 121,468 | 86,183 | 103,832 | 80,361 |
| Interest and Fiscal Charges | 59,023 | 36,767 | 60,948 | 43,814 |
| Total | <u>\$8,488,728</u> | <u>\$6,461,492</u> | <u>\$8,886,733</u> | <u>\$6,839,163</u> |

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,705,347 and expenditures of \$8,283,101.

The General Fund had total revenues of \$6,268,484 and expenditures of \$6,415,484. The fund balance for the General Fund decreased from the prior year due to an increase in liabilities.

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

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. For the General Fund, the final budget basis revenue was \$74,007 above the original estimate, due to an increase in intergovernmental revenues while the School District's final appropriations remained consistent with original estimates due to conservative budgeting by the School District.

The School District's ending unobligated General Fund balance is \$1,059,440.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$22,845,121 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and library and textbooks. For additional information on capital assets, see Note 9 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 | \$120,410 | \$120,410 |
| Land Improvements | 1,220,541 | 1,266,163 |
| Buildings and Improvements | 20,621,520 | 20,949,653 |
| Furniture and Equipment | 775,599 | 837,250 |
| Vehicles | 107,051 | 79,115 |
| Library and Textbooks | 0 | 6,565 |
| Totals | \$22,845,121 | \$23,259,156 |

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

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

Debt

At June 30, 2005, the School District had general obligation bonds outstanding of \$1,110,000. The original issue date of these bonds was June 4, 1998, in the amount of \$1,423,000 for the purpose of building new school building facilities. The bonds were issued for a twenty-three year period with final maturity during fiscal year 2021. The bonds will be retired from the debt service fund. For additional information on debt, see note 14 to the basic financial statements.

ECONOMIC FACTORS

As the preceding information shows, the School District depends upon the State School Foundation Program. Eastern Local School District must continue to monitor its current spending habits to ensure that costs are contained. The School District is in a low economic growth area, so local tax revenue will not be a major source of revenue growth unless the area grows substantially.

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 James Lehmann, Treasurer at Eastern Local School District, 1171 Tile Mill Road, Beaver, Ohio 45613.

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

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$1,654,112 |
| Accrued Interest Receivable | 72 |
| Intergovernmental Receivable | 321,653 |
| Property Taxes Receivable | 968,612 |
| Restricted Assets: | |
| Equity in Pooled Cash and Cash Equivalents | 386,866 |
| Nondepreciable Capital Assets | 120,410 |
| Depreciable Capital Assets, Net | 22,724,711 |
| <i>Total Assets</i> | 26,176,436 |
| Liabilities | |
| Accounts Payable | 4,114 |
| Accrued Wages and Benefits Payable | 504,501 |
| Accrued Interest Payable | 4,722 |
| Claims Payable | 4,761 |
| Deferred Revenue | 748,634 |
| Intergovernmental Payable | 233,926 |
| Long-Term Liabilities: | |
| Due Within One Year | 150,634 |
| Due In More Than One Year | 1,208,101 |
| <i>Total Liabilities</i> | 2,859,393 |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 21,735,121 |
| Restricted for: | |
| Capital Projects | 483,916 |
| Debt Service | 305,480 |
| Other Purposes | 352,021 |
| Unrestricted | 440,505 |
| <i>Total Net Assets</i> | \$23,317,043 |

See accompanying notes to the basic financial statements

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

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|------------------------------------|--------------------|-------------------------|---------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$3,638,022 | \$143,270 | \$610,406 | (\$2,884,346) |
| Special | 647,928 | 21,971 | 199,215 | (426,742) |
| Vocational | 58,193 | 1,966 | 0 | (56,227) |
| Other | 970,452 | 32,891 | 0 | (937,561) |
| Support Services: | | | | |
| Pupil | 321,395 | 17,094 | 78,001 | (226,300) |
| Instructional Staff | 301,437 | 16,942 | 84,473 | (200,022) |
| Board of Education | 28,506 | 966 | | (27,540) |
| Administration | 570,633 | 28,517 | 27,997 | (514,119) |
| Fiscal and Business | 203,078 | 9,726 | 3,298 | (190,054) |
| Operation and Maintenance of Plant | 582,719 | 20,029 | 1,722 | (560,968) |
| Pupil Transportation | 649,890 | 26,862 | 374,862 | (248,166) |
| Central | 46,827 | 2,057 | 5,903 | (38,867) |
| Operation of Non-Instructional | | | | |
| Services | 289,157 | 27,981 | 233,546 | (27,630) |
| Extracurricular Activities | 121,468 | 6,416 | 28,869 | (86,183) |
| Interest and Fiscal Charges | 59,023 | 0 | 22,256 | (36,767) |
| <i>Totals</i> | <u>\$8,488,728</u> | <u>\$356,688</u> | <u>\$1,670,548</u> | <u>(6,461,492)</u> |

General Revenues

Property Taxes Levied for:

| | |
|------------------|---------|
| General Purposes | 715,721 |
| Special Purposes | 16,525 |
| Debt Service | 138,654 |

Grants and Entitlements not Restricted
to Specific Programs

4,758,234

Gifts and Dontations not Restricted
to Specific Programs

4,320

Investment Earnings

34,562

Miscellaneous

44,920

Total General Revenues

5,712,936

Change in Net Assets

(748,556)

Net Assets Beginning of Year

24,065,599

Net Assets End of Year

\$23,317,043

See accompanying notes to the basic financial statements

Eastern Local School District

Balance Sheet

Governmental Funds

June 30, 2005

| | General | Bond Retirement | Title I | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$688,772 | \$272,018 | \$0 | \$680,671 | \$1,641,461 |
| Receivables: | | | | | |
| Property Taxes | 795,448 | 154,191 | 0 | 18,973 | 968,612 |
| Interfund | 261,971 | 0 | 0 | 0 | 261,971 |
| Intergovernmental | 0 | 0 | 174,581 | 147,064 | 321,645 |
| Interest | 72 | 0 | 0 | 0 | 72 |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents | 386,866 | 0 | 0 | 0 | 386,866 |
| <i>Total Assets</i> | <u>\$2,133,129</u> | <u>\$426,209</u> | <u>\$174,581</u> | <u>\$846,708</u> | <u>\$3,580,627</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$4,114 | \$0 | \$0 | \$0 | \$4,114 |
| Accrued Wages and Benefits Payable | 391,470 | 0 | 35,374 | 77,657 | 504,501 |
| Interfund Payable | 0 | 0 | 153,445 | 108,526 | 261,971 |
| Intergovernmental Payable | 173,871 | 0 | 8,822 | 51,233 | 233,926 |
| Deferred Revenue | 712,314 | 139,163 | 0 | 47,665 | 899,142 |
| <i>Total Liabilities</i> | <u>1,281,769</u> | <u>139,163</u> | <u>197,641</u> | <u>285,081</u> | <u>1,903,654</u> |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 14,316 | 0 | 0 | 127,087 | 141,403 |
| Reserved for Property Taxes | 83,134 | 15,028 | 0 | 1,749 | 99,911 |
| Reserved for Budget Stabilization | 29,239 | 0 | 0 | 0 | 29,239 |
| Reserved for Textbooks and Materials | 243,672 | 0 | 0 | 0 | 243,672 |
| Reserved for Bus Purchases | 113,955 | 0 | 0 | 0 | 113,955 |
| Unreserved, Undesignated, Reported in: | | | | | |
| General Fund | 367,044 | 0 | 0 | 0 | 367,044 |
| Special Revenue Funds | 0 | 0 | (23,060) | 66,523 | 43,463 |
| Debt Service Funds | 0 | 272,018 | 0 | 0 | 272,018 |
| Capital Projects Funds | 0 | 0 | 0 | 366,268 | 366,268 |
| <i>Total Fund Balances</i> | <u>851,360</u> | <u>287,046</u> | <u>(23,060)</u> | <u>561,627</u> | <u>1,676,973</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$2,133,129</u> | <u>\$426,209</u> | <u>\$174,581</u> | <u>\$846,708</u> | <u>\$3,580,627</u> |

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances \$ 1,676,973

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. 22,845,121

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

| | | |
|-------------------|---------|--|
| Taxes | 120,067 | |
| Intergovernmental | 30,449 | |
| | | |

| | | |
|-------|--|---------|
| Total | | 150,516 |
|-------|--|---------|

An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 7,890

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

| | | |
|---------------------------|-------------|--|
| Accrued Interest Payable | (4,722) | |
| Compensated Absences | (248,735) | |
| Energy Conservation Notes | (1,110,000) | |
| | | |

| | | |
|-------|--|-------------|
| Total | | (1,363,457) |
|-------|--|-------------|

Net Assets of Governmental Activities \$ 23,317,043

See accompanying notes to the basic financial statements

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

| | General | Bond Retirement | Title I | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|-------------------------|--------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$710,989 | \$138,351 | \$0 | \$15,774 | \$865,114 |
| Intergovernmental | 5,285,638 | 24,064 | 336,296 | 752,544 | 6,398,542 |
| Investment Earnings | 29,812 | 0 | 0 | 4,750 | 34,562 |
| Charges for Services | 0 | 0 | 0 | 89,544 | 89,544 |
| Tuition and Fees | 208,639 | 0 | 0 | 20 | 208,659 |
| Extracurricular Activities | 13,973 | 0 | 0 | 44,512 | 58,485 |
| Gifts and Donations | 151 | 0 | 0 | 4,169 | 4,320 |
| Miscellaneous | 19,282 | 0 | 0 | 26,839 | 46,121 |
| <i>Total Revenues</i> | <u>6,268,484</u> | <u>162,415</u> | <u>336,296</u> | <u>938,152</u> | <u>7,705,347</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 2,072,453 | 0 | 285,223 | 442,374 | 2,800,050 |
| Special | 648,433 | 0 | 2,617 | 11,052 | 662,102 |
| Vocational | 58,559 | 0 | 0 | 0 | 58,559 |
| Other | 970,452 | 0 | 0 | 0 | 970,452 |
| Support Services: | | | | | |
| Pupil | 234,016 | 0 | 30,743 | 43,183 | 307,942 |
| Instructional Staff | 206,901 | 0 | 7,603 | 100,489 | 314,993 |
| Board of Education | 29,402 | 0 | 0 | 0 | 29,402 |
| Administration | 613,245 | 790 | 20,919 | 10,090 | 645,044 |
| Fiscal and Business | 205,126 | 4,021 | 1,665 | 465 | 211,277 |
| Operation and Maintenance of Plant | 595,294 | 0 | 0 | 2,042 | 597,336 |
| Pupil Transportation | 654,009 | 0 | 0 | 55,325 | 709,334 |
| Central | 39,827 | 0 | 0 | 7,000 | 46,827 |
| Operation of Non-Instructional Services | 0 | 0 | 0 | 291,558 | 291,558 |
| Extracurricular Activities | 87,767 | 0 | 0 | 34,245 | 122,012 |
| Capital Outlay | 0 | 0 | 0 | 411,998 | 411,998 |
| Debt Service: | | | | | |
| Principal | 0 | 45,000 | 0 | 0 | 45,000 |
| Interest and Fiscal Charges | 0 | 59,215 | 0 | 0 | 59,215 |
| <i>Total Expenditures</i> | <u>6,415,484</u> | <u>109,026</u> | <u>348,770</u> | <u>1,409,821</u> | <u>8,283,101</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(147,000)</u> | <u>53,389</u> | <u>(12,474)</u> | <u>(471,669)</u> | <u>(577,754)</u> |
| <i>Net Change in Fund Balances</i> | <u>(147,000)</u> | <u>53,389</u> | <u>(12,474)</u> | <u>(471,669)</u> | <u>(577,754)</u> |
| <i>Fund Balances Beginning of Year -</i> | <u>998,360</u> | <u>233,657</u> | <u>(10,586)</u> | <u>1,033,296</u> | <u>2,254,727</u> |
| <i>Fund Balances End of Year</i> | <u><u>\$851,360</u></u> | <u><u>\$287,046</u></u> | <u><u>(\$23,060)</u></u> | <u><u>\$561,627</u></u> | <u><u>\$1,676,973</u></u> |

See accompanying notes to the basic financial statements

Eastern Local School District
*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 \$ (577,754)

**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 | 492,748 | |
| Current Year Depreciation | (906,783) | |
| Total | | (414,035) |

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

| | | |
|-------------------|--------|--------|
| Taxes | 5,786 | |
| Intergovernmental | 29,039 | |
| Total | | 34,825 |

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(4,328)

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.

45,000

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 Intergovernmental Payable | 96,886 | |
| Decrease in Interest Payable | 192 | |
| Decrease in Compensated Absences | 70,658 | |
| | | |

| | | |
|-------|--|---------|
| Total | | 167,736 |
|-------|--|---------|

Net Change in Net Assets of Governmental Activities \$ (748,556)

See accompanying notes to the basic financial statements

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget: Positive (Negative)</u> |
|--------------------------------------|-------------------------|---------------------|---------------------|--|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Total Revenues and Other Sources | \$ 6,296,797 | \$ 6,370,804 | \$ 6,265,054 | \$ (105,750) |
| Total Expenditures and Other Uses | 6,637,580 | 6,637,620 | 6,537,242 | 100,378 |
| Net Change in Fund Balance | (340,783) | (266,816) | (272,188) | (5,372) |
| Fund Balance, July 1, 2004 | 1,268,048 | 1,268,048 | 1,268,048 | - |
| Prior Year Encumbrances Appropriated | 63,580 | 63,580 | 63,580 | - |
| Fund Balance, June 30, 2005 | <u>\$ 990,845</u> | <u>\$ 1,064,812</u> | <u>\$ 1,059,440</u> | <u>\$ (5,372)</u> |

See accompanying notes to the basic financial statements

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget: Positive (Negative)</u> |
|--------------------------------------|-------------------------|---------------------|---------------|--|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Total Revenues and Other Sources | \$ 59,610 | \$ 445,913 | \$ 326,915 | \$ (118,998) |
| Total Expenditures and Other Uses | 497,830 | 497,830 | 369,469 | 128,361 |
| Net Change in Fund Balance | (438,220) | (51,917) | (42,554) | 9,363 |
| Fund Balance, July 1, 2004 | 36,802 | 36,802 | 36,802 | - |
| Prior Year Encumbrances Appropriated | 5,749 | 5,749 | 5,749 | - |
| Fund Balance, June 30, 2005 | <u>\$ (395,669)</u> | <u>\$ (9,366)</u> | <u>\$ (3)</u> | <u>\$ 9,363</u> |

See accompanying notes to the basic financial statements

Eastern Local School District
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
as of June 30, 2005

| | Internal Service Fund |
|--|----------------------------------|
| Assets: | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$12,651 |
| <i>Total Assets</i> | 12,651 |
| Liabilities: | |
| Current Liabilities: | |
| Claims Payable | 4,761 |
| <i>Total Liabilities</i> | 4,761 |
| Net Assets: | |
| Unrestricted | \$7,890 |

See accompanying notes to the basic financial statements

Eastern Local School District
*Statement of Revenues, Expenses and
 Changes In Fund Net Assets*
 Governmental Activities - Internal Service Fund
 For the Fiscal Year Ended June 30, 2005

| | Internal Service Fund |
|--|----------------------------------|
| Operating Revenues: | |
| Charges for Services | \$46,715 |
| <i>Total Operating Revenues</i> | 46,715 |
| Operating Expenses: | |
| Purchased Services | 48,431 |
| Claims Expense | 2,612 |
| <i>Total Operating Expenses</i> | 51,043 |
| <i>Change in Net Assets</i> | (4,328) |
| <i>Net Assets at Beginning of Year</i> | 12,218 |
| <i>Net Assets at End of Year</i> | \$7,890 |

See accompanying notes to the basic financial statements

Eastern Local School District
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2005

| | Internal Service Fund |
|--|----------------------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | |
| <i>Cash Flows from Operating Activities:</i> | |
| Cash Received from Customers | \$46,715 |
| Cash Payments for Goods and Services | (48,431) |
| <i>Net Cash Used for Operating Activities</i> | (1,716) |
| Cash and Cash Equivalents at Beginning of Year | 14,367 |
| Cash and Cash Equivalents at End of Year | \$12,651 |
| <i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i> | |
| Operating Loss | (\$4,328) |
| <i>Changes in Assets and Liabilities:</i> | |
| Increase in Claims Payable | 2,612 |
| <i>Net Cash Used for Operating Activities</i> | (\$1,716) |
| See accompanying notes to the basic financial statements | |

Eastern Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

| | |
|--|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$35,628</u> |
| Liabilities | |
| Undistributed Monies | <u>35,628</u> |
| <i>Total Liabilities</i> | <u>\$35,628</u> |

See accompanying notes to the basic financial statements

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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 1960 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 107 square miles. It is located in Pike County, and includes all of the Villages of Beaver and Stockdale and portions of Marion, Union, and East Jackson Townships in Pike County, Madison Township in Scioto County and Liberty Township in Jackson County. It is staffed by 37 non-certificated employees, 61 certificated full-time teaching personnel, and 6 administrators who provide services to 808 students and other community members. The School District currently operates three instructional buildings.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For 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 organizations 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 organizations 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 does not have any component units.

The following 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.

- Village of Beaver
- Parent Teacher Organization
- Ross - Pike County Educational Service Center

The School District participates in four organizations, two of which are defined as jointly governed organizations, and two as group purchasing pools. These organizations are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, the Ohio School Boards Association Workers Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 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 more significant of the School District's accounting policies are described below.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net assets presents the financial condition of 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 governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements:

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using three categories, governmental, proprietary, 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Title I Fund

The Title I Fund is a fund utilized to provide financial assistance to State and local educational agencies to meet the special needs of educationally deprived children.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Eastern Local School District has no Enterprise Funds.

Internal Service Fund

The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Eastern Local School District on a cost reimbursement basis. The School District's only internal service fund accounts for the self-insurance program for employee dental claims.

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. 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.

C. 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. 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.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources 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 60 days of year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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 year-end: property taxes available as an advance, investment earnings, tuition, grants, and fees.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, which is recorded when due, and (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.

D. Budgetary Process

All funds, other than the agency fund, 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 set 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.

The certificate of estimated resources may be amended during the fiscal 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 statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

E. 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 had no investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$29,812 and \$4,750 for other governmental funds.

For purposes of presentation on the balance sheet, 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.

F. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for budget stabilization, and amounts required by statute to be set-aside by the School District for the purchase of textbooks and buses. See Note 17 for additional information regarding set-asides.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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 \$1,500. The School District does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|---------------------------|------------------------|
| Land Improvements | 10-25 years |
| Building and Improvements | 20-50 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 8-15 years |
| Library and Textbooks | 5-10 years |

H. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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/expenses to the funds that initially paid for them are not presented on the financial statements.

I. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate its 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 severance benefits and those the School District has identified as probable of receiving payment in the future. The School District records an accrual for sick leave for all employees with twenty years or more of service. The accrual amount is based upon accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the School District's severance policy.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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 judgements and contractually required pension contributions 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 an expenditure and liability in the governmental fund financial statements when due.

K. Fund Balance Reserves

The School District records reservations for 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 are established for encumbrances, property taxes, textbooks and instructional materials, budget stabilization, and bus purchases.

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 appropriations under State statute.

L. 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.

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences", 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 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 of GASB Statement Nos. 41 and 40 had no effect on the District's financial statements.

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

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2005, the Title I major fund and the Food Service, Professional Development, Management Information System, DPIA, Ohio Reads, and Summer Intervention nonmajor Special Revenue Funds had fund balance deficits of \$23,060, \$30,490, \$6,861, \$5,000, \$16,088, \$535, and \$40,685, 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.

B. Compliance

As of June 30, 2005, actual expenditures plus encumbrances exceeded appropriations at the fund level for the following funds:

| Fund Name (Number) | Total Appropriations | Expenditures plus Encumbrances | Variance |
|------------------------------|----------------------|-----------------------------------|----------|
| Ohio Reads (459) | \$0 | \$3,093 | \$3,093 |
| Summer Intervention (460) | 52,628 | 55,070 | 2,442 |
| Drug Free School Grant (584) | 13,581 | 14,224 | 643 |
| Food Service (006) | 272,444 | 274,988 | 2,544 |

Contrary to ORC Section 5705.39 the Title I Fund had appropriations that exceeded estimated resources by \$395,669 for the original budget and \$9,366 for the final budget.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Balance - Budget and Actual (Budgetary Basis) presented for the General Fund and the Title I major special revenue fund are 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 (modified accrual) basis are as follows:

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

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and the Title I major special revenue fund.

| Net Change in Fund Balances | | |
|-----------------------------|--------------|-------------|
| | General Fund | Title I |
| GAAP Basis | \$ (147,000) | \$ (12,474) |
| Revenue Accruals | (3,430) | (9,381) |
| Expenditure Accruals | 19,645 | (20,699) |
| Encumbrances | (141,403) | - |
| Budget Basis | \$ (272,188) | \$ (42,554) |

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts;

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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 (STAROhio);
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 Districts 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 purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of 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.

The following information classifies deposits and investments by categories of risk as defined in *GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

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 \$2,076,606 and the bank balance was \$2,368,149. Of the bank balance, \$200,000 was covered by federal deposit insurance (Category 1) and \$2,168,149 was uninsured and uncollateralized (Category 3) and exposed to custodial credit risk. 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 Federal Deposit Insurance Corporation.

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

NOTE 7 - 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.

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 | \$29,894,150 | 81.48% | \$25,871,850 | 81.92% |
| Public Utility | 5,574,920 | 15.19% | 4,647,960 | 14.72% |
| Tangible Personal Property | 1,220,393 | 3.33% | 1,061,680 | 3.36% |
| Total Assessed Value | <u>\$36,689,463</u> | <u>100.00%</u> | <u>\$31,581,490</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$33.51 | | \$33.51 | |

The School District receives property taxes from Pike, Scioto and Jackson Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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.

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

NOTE 7 - PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding 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 amount 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 \$83,134 in the General Fund, \$15,028 in the Bond Retirement Fund, and \$1,749 in all other non-major governmental funds.

NOTE 8 - RECEIVABLES

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

| | Amount |
|--|------------|
| Major Funds: | |
| Title I | \$ 174,581 |
| Non-major Special Revenue Funds | |
| Food Service | 38,991 |
| Professional Development - Grades 9-10 | 9,125 |
| Student Intervention - Grades 1-4 | 10,374 |
| Student Intervention - Grades 9-10 | 9,771 |
| Special Education, Part B IDEA | 27,488 |
| Safe and Drug-free Schools, Title IV-A | 5,200 |
| Improving Teacher Quality, Title II-A | 43,922 |
| Technology, Title II-D | 2,193 |
| Total Non-major Special Revenue Funds | 147,064 |
| Total Intergovernmental Receivable | \$ 321,645 |

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

NOTE 9 - 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 | \$120,410 | \$0 | \$0 | \$120,410 |
| Total Capital Assets, Not Being Depreciated | 120,410 | 0 | 0 | 120,410 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 1,380,218 | 0 | 0 | 1,380,218 |
| Buildings and Improvements | 22,768,782 | 407,393 | 0 | 23,176,175 |
| Furniture and Equipment | 1,235,005 | 18,745 | 0 | 1,253,750 |
| Vehicles | 1,222,579 | 66,610 | 0 | 1,289,189 |
| Textbooks | 522,523 | 0 | 0 | 522,523 |
| Total Capital Assets Being Depreciated | 27,129,107 | 492,748 | 0 | 27,621,855 |
| Less: Accumulated Depreciation: | | | | |
| Land Improvements | (114,055) | (45,622) | 0 | (159,677) |
| Buildings and Improvements | (1,819,129) | (735,526) | 0 | (2,554,655) |
| Furniture and Equipment | (397,755) | (80,396) | 0 | (478,151) |
| Vehicles | (1,143,464) | (38,674) | 0 | (1,182,138) |
| Textbooks | (515,958) | (6,565) | 0 | (522,523) |
| Total Accumulated Depreciation | (3,990,361) | (906,783) | 0 | (4,897,144) |
| Total Capital Assets Being Depreciated, Net | 23,138,746 | (414,035) | 0 | 22,724,711 |
| Governmental Capital Assets, Net | \$23,259,156 | (\$414,035) | \$0 | \$22,845,121 |

Depreciation expense was charged to government functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$846,874 |
| Vocational | 173 |
| Support Services: | |
| Pupil | 267 |
| Administration | 2,405 |
| Operation and Maintenance of Plant | 6,177 |
| Pupil Transportation | 38,674 |
| Non-Instructional Services | 12,213 |
| Total Depreciation Expense | \$906,783 |

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

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Motorists Mutual Insurance Company for property and fleet insurance, and professional liability insurance coverage. Coverages provided are as follows:

| | |
|---|--------------|
| Building and Contents-80% Co-insurance (\$1,000 deductible) | \$22,919,232 |
| Boiler and Machinery-80% Co-insurance (\$5,000 deductible) | 22,919,232 |
| Crime Insurance | 4,000 |
| Automobile Liability | 300,000 |
| Uninsured Motorists | 300,000 |

During fiscal year 2005, the School District contracted with Cincinnati Insurance Company and Western Surety Company for public official bonds as follows:

| | |
|---|--------|
| Treasurer / Superintendent / Board President (each) | 20,000 |
| Assistant Treasurer | 3,000 |
| Blanket bond | 6,000 |

During fiscal year 2005, the School District participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverages, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 15)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

| | |
|--|-------------------------|
| General Liability: | |
| Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Offense | \$1,000,000 |
| Personal and Advertising Injury Limit - Each Offense | 1,000,000 |
| Fire Damage Limit - Any One Event | 500,000 |
| General Aggregate Limit | 3,000,000 |
| Products - Completed Operations Aggregate Limit | 1,000,000 |
| Employer's Liability: | |
| Bodily Injury by Accident - Each Accident | 1,000,000 |
| Bodily Injury by Disease - Endorsement Limit | 1,000,000 |
| Bodily Injury by Disease - Each Employee | 1,000,000 |
| Employee Benefits Liability: | |
| Per Claim/Aggregate Limits | \$1,000,000/\$3,000,000 |
| Educational Legal Liability (\$5,000 deductible): | |
| Errors and Omissions Injury/Aggregate Limits | \$1,000,000/\$2,000,000 |
| Defense Costs/Aggregate Cap | \$1,000,000/\$1,000,000 |
| Employment Practices Injury/Aggregate Limit | \$1,000,000/\$2,000,000 |

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

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

NOTE 10 - RISK MANAGEMENT (continued)

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 participants 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" ensures 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 GRPs selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Dental insurance is offered to employees through a self-insurance fund accounted for within the General Fund. Coresource is the School Districts third party administrator who informs the School District of claim payments needed each week. Coresource provides an actuarial study each year and advises the School District as to any change needed in premium payments to the internal service fund. The claims liability of \$4,761 reported in the Internal Service Fund at June 30, 2005 is based on an estimate provided by Coresource, and the requirements of *GASB Statement No. 30 Risk Financing Omnibus*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past three fiscal years are as follows:

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|---------------------------------|------------------------|----------------|---------------------------|
| 2003 | \$2,930 | \$39,847 | \$33,241 | \$9,536 |
| 2004 | 9,536 | 45,278 | 52,665 | 2,149 |
| 2005 | 2,149 | 51,043 | 48,431 | 4,761 |

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations.

The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$107,941, \$84,430 and \$71,364, respectively; 29 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$77,125 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 participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$347,553, \$345,607 and \$413,361, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$58,318 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

NOTE 12-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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of 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, 2005, 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 \$26,391 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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, prorated 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. For the 2005 fiscal year, School District paid \$98,584 to fund health care benefits, including the surcharge.

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

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

NOTE 13-EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees and administrators earn seven to twenty-five 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 and administrators, with the exception of the Superintendent and Treasurer, do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for teachers and administrators and 215 days for classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days.

B. Life and Accident Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource. The School District has elected to provide employee medical/surgical benefits, vision, and prescription drug benefits through Anthem Blue Cross/Blue Shield. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

NOTE 14 - LONG-TERM OBLIGATIONS

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

| | Obligations Outstanding 6/30/04 | Additions | Deductions | Obligations Outstanding 6/30/05 | Due in One Year |
|--|---------------------------------------|-----------|------------|---------------------------------------|--------------------|
| 1998 School Improvement General Obligation Bonds – 4.0% - 5.0% | \$1,155,000 | \$0 | \$45,000 | \$1,110,000 | \$45,000 |
| Compensated Absences | 319,393 | 248,735 | 319,393 | 248,735 | 105,634 |
| Total General Long-Term Obligations | \$1,474,393 | \$248,735 | \$364,393 | \$1,358,735 | \$150,634 |

Compensated absences will be paid from the fund from which the employees are paid.

1998 School Improvement General Obligation Bonds - On June 4, 1998, the School District issued \$1,423,000 in voted general obligation bonds for the purpose of building new school building facilities. The bonds were issued for a twenty-three year period with final maturity during fiscal year 2021. The bonds will be retired from the debt service fund.

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

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

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

| Fiscal year Ending June 30, | Principal | Interest | Total |
|--------------------------------|--------------------|------------------|--------------------|
| 2006 | \$45,000 | \$57,156 | \$102,156 |
| 2007 | 50,000 | 54,935 | 104,935 |
| 2008 | 50,000 | 52,572 | 102,572 |
| 2009 | 55,000 | 50,065 | 105,065 |
| 2010 | 55,000 | 47,397 | 102,397 |
| 2011-2015 | 330,000 | 183,150 | 513,150 |
| 2016-2020 | 425,000 | 80,625 | 505,625 |
| Thereafter | 100,000 | 2,500 | 102,500 |
| Total | <u>\$1,110,000</u> | <u>\$528,400</u> | <u>\$1,638,400</u> |

The School District's overall legal debt margin was \$2,192,052 with an unvoted debt margin of \$36,689 at June 30, 2005.

NOTE 15 - GROUP PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan - 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.

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

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

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 \$63,493 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career Technology Center, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

The Pilasco-Ross Special Education Regional Resource Center - The Pilasco-Ross Special Education Regional Resource Center (Pilasco-Ross) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Eastern Local School District's Superintendent is an alternate for the Pilasco-Ross Board. Financial information can be obtained by contacting the fiscal agent, Jim Tordiff, Treasurer, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

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 or 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.

The School District is 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 instructional materials, and capital acquisition. Disclosure of this information is required by State statute.

| | Textbooks | Capital Acquisition | Budget Stablization |
|---|-----------|------------------------|------------------------|
| Set-aside Reserve Balance as of June 30, 2004 | \$235,034 | \$0 | \$29,239 |
| Current year set-aside requirement | 107,887 | 107,887 | 0 |
| Current year offsets and prior year carryover | 0 | (15,642) | 0 |
| Qualifying disbursements | (99,249) | (407,393) | 0 |
| Totals | 243,672 | (315,148) | 29,239 |
| Set-aside Reserve Balance as of June 30, 2005 | \$243,672 | \$0 | \$29,239 |

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero in the Capital Acquisition Reserve. This extra amount may not be carried forward and used to reduce the set-aside requirements of future year.

Eastern Local School District
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 – INTERFUND ACTIVITY

Interfund balances at June 30, 2005, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2006 fiscal year:

| <u>Interfund Loans</u> | <u>Receivable</u> | <u>Payable</u> |
|--------------------------------------|-------------------|-------------------|
| General | \$ 261,971 | |
| Title I | | \$ 153,445 |
| | | |
| Nonmajor Special Revenue Funds | | |
| Lunchroom | | 34,164 |
| Professional Development | | 6,807 |
| Manage. Info. Sys. | | 5,000 |
| Student Intervention Grades 9-10 | | 5,456 |
| Summer Intervention | | 7,351 |
| Student Intervention Grades 1-4 | | 15,482 |
| Title VI-B - IDEA | | 9,702 |
| Drug Free | | 5,046 |
| Title II-D | | 19,326 |
| Title II-D Technology | | 192 |
| Total Nonmajor Special Revenue Funds | - | 108,526 |
| | | |
| Total Interfund Receivables/Payables | <u>\$ 261,971</u> | <u>\$ 261,971</u> |

The amounts due to the General Fund are the result of the School District moving unrestricted monies to support grant funds whose grants operate on a reimbursement basis. The General Fund will be reimbursed when funds become available in the nonmajor special revenue funds.

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**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

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

| FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title | Federal CFDA Number | Pass Through Entity Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|--|---------------------------|--|-----------------------------|-----------------------|----------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation | 10.550 | N/A | \$0 | \$9,595 | \$0 | \$9,595 |
| School Breakfast Program | 10.553 | 05-PU-04 05-PU-05 | 8,463 24,719 | | 8,463 24,719 | |
| Total School Breakfast Program | | | <u>33,182</u> | <u>0</u> | <u>33,182</u> | <u>0</u> |
| National School Lunch Program | 10.555 | LL-P4-04 LL-P4-05 | 31,016 84,918 | | 31,016 84,918 | |
| Total National School Lunch Program | | | <u>115,934</u> | <u>0</u> | <u>115,934</u> | <u>0</u> |
| Total Nutrition Cluster | | | <u>149,116</u> | <u>9,595</u> | <u>149,116</u> | <u>9,595</u> |
| Total United States Department of Agriculture | | | <u>149,116</u> | <u>9,595</u> | <u>149,116</u> | <u>9,595</u> |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1-S1-04 C1-S1-05 | 12,074 148,298 | | 54,625 250,036 | |
| Total Title I Grants to Local Educational Agencies | | | <u>160,372</u> | <u>0</u> | <u>304,661</u> | <u>0</u> |
| Special Education - Grants to States | 84.027 | 6BSF-94 6BSF-04 6BSF-05 | (396) 107,738 | | 1,808 11,894 117,440 | |
| Total Special Education - Grants to States | | | <u>107,342</u> | <u>0</u> | <u>131,142</u> | <u>0</u> |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | DRS1-02 DRS1- 04 DRS1- 05 | 1,042 4,650 | | 1,979 - 9,696 | |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | <u>5,692</u> | <u>0</u> | <u>11,675</u> | <u>0</u> |
| Goals 2000 - State and Local Education Systemic Improvement Grants | 84.276 | G2-S1-01 G2-S2-01 G2-S5-01 | (1,646) (5,197) (108) | | | |
| Total Goals 2000 - State and Local Education Systemic Improvement Grants | | | <u>(6,951)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Innovative Education Program Strategies | 84.298 | C2-S1-04 C2-S1-05 | (4,510) 4,887 | | | |
| Total Innovative Education Program Strategies | | | <u>377</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Education Technology State Grants | 84.318 | TJ-S1-99 TJ-S1-03 TJ-S1-04 TJ-S1-05 | 367 808 | | 11 1 1,000 | |
| Total Education Technology State Grants | | | <u>1,175</u> | <u>0</u> | <u>1,012</u> | <u>0</u> |
| Comprehensive School Reform Demonstration | 84.332 | RF-S2-03 RF-S3-04 | 6,869 26,386 | | 5,868 57,937 | |
| Total Comprehensive School Reform Demonstration | | | <u>33,255</u> | <u>0</u> | <u>63,805</u> | <u>0</u> |
| Improving Teacher Quality State Grants | 84.367 | TR-S1-04 TR-S1-05 | 4,154 33,204 | | 15,789 52,530 | |
| Total Improving Teacher Quality State Grants | | | <u>37,358</u> | <u>0</u> | <u>68,319</u> | <u>0</u> |
| Total United States Department of Education | | | <u>338,620</u> | <u>0</u> | <u>580,614</u> | <u>0</u> |
| Total Federal Awards Receipts and Expenditures | | | <u>\$487,736</u> | <u>\$9,595</u> | <u>\$729,730</u> | <u>\$9,595</u> |

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR FISCAL THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – NEGATIVE RECEIPTS

Refund of money to the Ohio Department of Education due to expiration of period of availability resulted in a negative receipt in the amount of (\$6,951) for the Goals 2000–State and Local Education Systemic Improvement Grant CFDA #84.276.

Innovative Education Program Strategies Grant, CFDA #84.298, funds in the amount of \$4,510 were carried over from 2004 to the next program year, resulting in a negative receipt of \$4,510.

Special Education-Grant to States, CFDA #84.027, funds in the amount of \$396 were carried over from 2004 to the next program year, resulting in a negative receipt of \$396.



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
Pike County
1170 Tile Mill Road
Beaver, Ohio 45613

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 the Eastern Local School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 21, 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 School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated June 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic 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 that we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated June 21, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Eastern Local School District
Pike County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

June 21, 2006



**Auditor of State
Betty Montgomery**

**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**

Eastern Local School District
Pike County
1170 Tile Mill Road
Beaver, Ohio 45613

To the Board of Education:

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

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

Internal Control Over Compliance

The School 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated June 21, 2006.

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



Betty Montgomery
Auditor of State

June 21, 2006

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I Grants to Local Educational Agencies – CFDA #84.010 Special Education – Grants to States - CFDA #84.027 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

There were no findings required to be reported in accordance with GAGAS.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings required to be reported.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2004-001 | Ohio Rev. Code Section 5705.41(D)(1) – funds for purchases not certified prior to commitment. | Yes | |
| 2004-002 | Ohio Rev. Code Section 5705.41 (B) – expenditures plus encumbrances exceeded appropriations. | No | Partially Corrected. Noncompliance citation included in Management Letter. |
| 2004-003 | Title I, Part A, Section 1120A(b) of Elementary and Secondary Education Act (ESEA) (20 U.S.C. 6321(b)) – supplement not supplant requirement not met. | Yes | |



**Auditor of State
Betty Montgomery**

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**EASTERN LOCAL SCHOOL DISTRICT
PIKE 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
JULY 11, 2006**