



Mary Taylor, CPA
Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Eastern Local School District
Meigs County
50008 State Route 681
Reedsville, Ohio 45772

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained 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 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 Eastern Local School District, Meigs County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting 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 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 8, 2007

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of the Eastern Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- ▶ The assets of Eastern Local School District exceeded its liabilities at June 30, 2006 by \$9,151,937. Of this amount, \$8,646,258 represents the amount invested in capital assets, net of related debt and net asset amounts restricted for specific purposes. The remaining \$505,679 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities decreased by \$593,286, which represents a 6.08 percent decrease from 2005.
- ▶ General revenues accounted for \$5,707,005 or 77.91 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,618,299 or 22.09 percent of total revenues of \$7,325,304.
- ▶ The District had \$7,918,590 in expenses related to governmental activities; only \$1,618,299 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$5,707,005 along with cash balances from the prior year were used to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other governmental funds of the District combined. The General Fund had \$6,059,554 in revenues and \$6,312,021 in expenditures in fiscal year 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand 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.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting, which is 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.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's two major governmental funds are the General Fund and the Bond Retirement Fund.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Fund

The District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the full accrual basis of accounting.

Fiduciary Fund

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. 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.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2006	Restated 2005
<u>Assets:</u>		
Current and Other Assets	\$3,123,684	\$3,576,929
Capital Assets, Net	9,311,712	9,642,661
<i>Total Assets</i>	12,435,396	13,219,590
<u>Liabilities:</u>		
Long-Term Liabilities	1,343,256	1,372,142
Other Liabilities	1,940,203	2,102,225
<i>Total Liabilities</i>	3,283,459	3,474,367
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	8,156,712	8,442,868
Restricted	489,546	494,656
Unrestricted	505,679	807,699
<i>Total Net Assets</i>	\$9,151,937	\$9,745,223

Current and other assets decreased \$453,245 from fiscal year 2005 due to a decrease in cash and cash equivalents held by the District. Capital assets decreased by \$330,949 or 3.43 percent.

Current (other) liabilities decreased by only \$162,022 or 7.71 percent.

Long-term liabilities decreased by \$28,886 due to the retirement of principal on general obligation debt.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. This accounts for 89.13 percent of net assets. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

The District's next largest portion of net assets is unrestricted. This accounts for 5.53 percent of net assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

The remaining balance of \$489,546 or 5.35 percent is restricted net assets. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2006 and provides a comparison to fiscal year 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	Restated 2005
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$238,830	\$235,596
Operating Grants and Contributions	1,370,381	913,067
Capital Grants and Contributions	9,088	0
<i>General Revenue:</i>		
Property Taxes	1,304,850	893,316
Unrestricted Grants and Entitlements	3,898,593	4,361,510
Unrestricted Tuition and Fees	375,129	334,501
Investment Earnings	78,280	43,476
Miscellaneous	50,153	68,284
<i>Total Revenues</i>	7,325,304	6,849,750
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	3,509,280	3,226,592
Special	857,710	856,998
Other	65,515	18,575

(Continued)

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2
Changes in Net Assets
(Continued)

	2006	Restated 2005
<i>Support Services:</i>		
Pupils	361,708	387,015
Instructional Staff	233,372	266,649
Board of Education	36,135	29,323
Administration	483,915	513,524
Fiscal	251,923	260,009
Business	5,048	2,956
Operation and Maintenance of Plant	792,337	583,786
Pupil Transportation	550,244	597,980
Central	76,116	73,241
<i>Operation of Non-Instructional Services:</i>		
Food Service	367,420	366,312
Other	15,964	19,308
Extracurricular Activities	239,413	243,553
Interest and Fiscal Charges	72,490	75,326
<i>Total Expenses</i>	7,918,590	7,521,147
<i>Change in Net Assets</i>	(593,286)	(671,397)
Net Assets – Beginning of Year	9,745,223	10,416,620
Net Assets – End of Year	\$9,151,937	\$9,745,223

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Pupil Transportation, and Administration. These programs account for 78.21 percent of the total governmental activities. Regular Instruction, which accounts for 44.32 percent of the total, represents costs associated with providing general educational services. Special Instruction, 10.83 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 10.00 percent of the total, represent costs associated with the operating and maintaining the District's facilities. Pupil Transportation, which represents 6.95 percent of the total, represents costs associated with providing transportation services for student between home and school and to school activities. Administration, which represents 6.11 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole.

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Management's Discussion and Analysis
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The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 71.03 percent of total revenues.

The District's expenses increased \$397,443 or 5.28 percent.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 17.81 percent and intergovernmental revenue made up 72.05 percent of the total revenue for the governmental activities in fiscal year 2006.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District voters approved a bond retirement tax levy for 3.0 mills. It was passed in November 1996 as part of a \$1,455,000 bond issue for facility improvements. This levy generates approximately \$160,000 dollars in revenue for debt service payments.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2006, the District received \$4,241,976 through the State's foundation program, which represents 58.05 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 55.98 percent of governmental activities program expenses. Support services expenses make up 35.24 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006 compared with fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
<i>Program Expenses:</i>				
Instruction	\$4,432,505	\$3,594,837	\$4,102,165	\$3,504,886
Support Services	2,790,798	2,417,854	2,714,483	2,577,804
Operation of Non-Instructional Services	383,384	54,477	385,620	54,845
Extracurricular Activities	239,413	160,633	243,553	159,623
Interest and Fiscal Charges	72,490	72,490	75,326	75,326
Total Expenses	<u>\$7,918,590</u>	<u>\$6,300,291</u>	<u>\$7,521,147</u>	<u>\$6,372,484</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues and other financing sources of \$7,317,455 and expenditures and other financing uses of \$7,608,748.

Total governmental funds fund balance decreased by \$291,293. The decrease in fund balance for the year was most significant in the General Fund, a decrease of \$262,282 reflecting that expenditures exceeded revenues.

The District should remain stable in fiscal years 2007 through 2009. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2006, the District amended its General Fund budget ten times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

For the General Fund, the final budget basis revenue was \$5,964,006 representing a \$240,958 increase from the original budget estimate of \$5,723,048. The final budget reflected a 4.21 percent increase from the original budgeted amount. Most of this difference was due to underestimates of intergovernmental revenue and property taxes. For the General Fund, the final budget basis expenditures were \$6,671,237 representing a decrease of \$55,291 from the original budget expenditures of \$6,726,528. The final budget reflected a 0.82 percent decrease from the original budgeted amount. Most of the difference is due to overestimates of resources available for appropriation.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$14 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$4.7 million. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

Table 4
Capital Assets & Accumulated Depreciation

	<u>Governmental Activities</u>	
	2006	Restated 2005
<i>Nondepreciable Capital Assets:</i>		
Land	\$23,487	\$23,487
<i>Depreciable Capital Assets:</i>		
Land Improvements	394,492	394,492
Buildings and Improvements	10,806,892	10,800,769
Furniture, Fixtures and Equipment	1,559,460	1,590,105
Vehicles	916,894	854,489
Library Books and Textbooks	329,507	286,925
<i>Total Capital Assets</i>	14,030,732	13,950,267
<i>Less Accumulated Depreciation:</i>		
Land Improvements	150,738	132,036
Buildings and Improvements	2,867,423	2,630,233
Furniture, Fixtures and Equipment	964,048	919,140
Vehicles	506,335	441,161
Library Books and Textbooks	230,476	185,036
<i>Total Accumulated Depreciation</i>	4,719,020	4,307,606
Capital Assets, Net	\$9,311,712	\$9,642,661

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Management's Discussion and Analysis
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(Unaudited)

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2006 the District had \$1,155,000 in general obligation debt outstanding with \$50,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2006 compared to fiscal year 2005.

Table 5
Outstanding Debt

Purpose	Governmental Activities	
	2006	2005
Renovation Bonds	\$1,155,000	\$1,200,000
Total	\$1,155,000	\$1,200,000

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Eastern Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Over half of the District's funding is received through the State's foundation program, which along with other various grants and entitlements makes up 72.05 percent of the District's revenue. The District relies on state and federal funding to operate at the current level of services. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning and the passage of a building levy have permitted the District to provide a quality education for our students along with renovated facilities for the future.

In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court now has two new Justices and the new court may be called upon to address the issue. On August 14, 2003 the Ohio Coalition for Adequacy and Equity filed petition for a Writ of Certiorari with the United States Supreme Court. On October 20, 2003 the United States Supreme Court declined to review the State's continued operation of a school funding plan declared unconstitutional by the Ohio Supreme Court on four separate occasions. At this time there can be no reasonable estimate of these discussions or their impact on school funding.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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(Unaudited)

As of the date of these financial statements, the District is unable to determine what effect, if any, these decisions will have on its future State funding and on its financial statements.

The State Legislature has also made several significant changes impacting local taxes:

In 2003 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced through 2006; after this a phase out formula would begin.

The Eastern Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes 86 percent of the District's real estate valuation.

Commercial growth saw a slight decrease in the assessed valuation of public utility personal and tangible personal property in calendar 2006. This was mainly due to decreased valuation of the small businesses located throughout the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Lisa Ritchie, Treasurer of Eastern Local School Board of Education, 50008 State Route 681, Reedsville, Ohio 45772.

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EASTERN LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,527,684
Property Taxes Receivable	1,296,588
Accounts Receivable	19,752
Intergovernmental Receivable	90,012
Prepaid Items	1,484
Materials and Supplies Inventory	16,605
<i>Restricted Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	171,559
Nondepreciable Capital Assets	23,487
Depreciable Capital Assets, Net	<u>9,288,225</u>
<i>Total Assets</i>	<u>12,435,396</u>
<u>Liabilities:</u>	
Accounts Payable	106
Accrued Wages and Benefits	638,888
Intergovernmental Payable	299,581
Accrued Interest Payable	5,322
Claims Payable	2,521
Deferred Revenue	993,785
<i>Long-Term Liabilities:</i>	
Due within One Year	84,472
Due in More Than One Year	<u>1,258,784</u>
<i>Total Liabilities</i>	<u>3,283,459</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	8,156,712
<i>Restricted for:</i>	
Capital Outlay	13,926
Debt Service	282,232
Other Purposes	193,388
Unrestricted	<u>505,679</u>
<i>Total Net Assets</i>	<u><u>\$9,151,937</u></u>

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense)	
				Revenue and	
				Changes in	
				Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
<i>Instruction:</i>					
Regular	\$3,509,280	\$1,998	\$290,085	\$9,088	(\$3,208,109)
Special	857,710	0	472,913	0	(384,797)
Other	65,515	0	63,584	0	(1,931)
<i>Support Services:</i>					
Pupils	361,708	0	0	0	(361,708)
Instructional Staff	233,372	0	98,653	0	(134,719)
Board of Education	36,135	0	0	0	(36,135)
Administration	483,915	0	0	0	(483,915)
Fiscal	251,923	0	0	0	(251,923)
Business	5,048	0	0	0	(5,048)
Operation and Maintenance of Plant	792,337	0	0	0	(792,337)
Pupil Transportation	550,244	0	269,291	0	(280,953)
Central	76,116	0	5,000	0	(71,116)
<i>Operation of Non-Instructional Services:</i>					
Food Service	367,420	168,544	156,354	0	(42,522)
Other	15,964	2,182	1,827	0	(11,955)
Extracurricular Activities	239,413	66,106	12,674	0	(160,633)
Interest and Fiscal Charges	72,490	0	0	0	(72,490)
Total Governmental Activities	\$7,918,590	\$238,830	\$1,370,381	\$9,088	(6,300,291)
 <u>General Revenues:</u>					
<i>Property Taxes Levied for:</i>					
General Purposes					1,148,699
Debt Service					133,339
Capital Outlay					22,812
Grants and Entitlements not Restricted to Specific Programs					3,898,593
Unrestricted Tuition and Fees					375,129
Investment Earnings					78,280
Miscellaneous					50,153
Total General Revenues					5,707,005
Change in Net Assets					(593,286)
<i>Net Assets at Beginning of Year - As Restated (See Note 3)</i>					9,745,223
<i>Net Assets at End of Year</i>					\$9,151,937

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2006

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$918,589	\$254,051	\$229,182	\$1,401,822
Property Taxes Receivable	1,139,403	134,461	22,724	1,296,588
Materials and Supplies Inventory	16,605	0	0	16,605
Accounts Receivable	19,752	0	0	19,752
Intergovernmental Receivable	0	0	90,012	90,012
Interfund Receivable	6,466	0	0	6,466
Prepaid Items	1,484	0	0	1,484
<i>Restricted Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	171,559	0	0	171,559
Total Assets	\$2,273,858	\$388,512	\$341,918	\$3,004,288
<u>Liabilities:</u>				
Accounts Payable	\$106	\$0	\$0	\$106
Accrued Wages and Benefits	540,218	0	98,670	638,888
Interfund Payable	0	0	6,466	6,466
Intergovernmental Payable	247,021	0	52,560	299,581
Deferred Revenue	1,048,664	123,680	83,652	1,255,996
Total Liabilities	1,836,009	123,680	241,348	2,201,037
<u>Fund Balances:</u>				
Reserved for Encumbrances	155,451	0	10,397	165,848
Reserved for Property Taxes	90,739	10,782	1,815	103,336
Reserved for Textbooks and Instructional Materials	114,820	0	0	114,820
Reserved for Capital Improvements	3,873	0	0	3,873
Reserved for Budget Stabilization	52,866	0	0	52,866
<i>Unreserved, Undesignated, Reported in:</i>				
General Fund	20,100	0	0	20,100
Special Revenue Funds	0	0	74,432	74,432
Debt Service Fund	0	254,050	0	254,050
Capital Projects Funds	0	0	13,926	13,926
Total Fund Balances	437,849	264,832	100,570	803,251
Total Liabilities and Fund Balances	\$2,273,858	\$388,512	\$341,918	\$3,004,288

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, 2006*

Total Governmental Funds Balances	\$803,251
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,311,712
Some of the District's receivables will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:	
Property taxes	217,779
Intergovernmental revenue	<u>44,432</u>
Total	262,211
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:	
Renovation bonds	(1,155,000)
Accrued interest on bonds	(5,322)
Compensated absences	<u>(188,256)</u>
Total liabilities that are not reported in the funds	(1,348,578)
An internal service fund is used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>123,341</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$9,151,937</u></u>

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, 2006

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$1,126,768	\$133,295	\$22,506	\$1,282,569
Intergovernmental	4,431,096	16,169	822,250	5,269,515
Interest	76,408	0	1,872	78,280
Tuition and Fees	375,129	0	1,998	377,127
Extracurricular Activities	0	0	68,288	68,288
Rentals	25,396	0	0	25,396
Charges for Services	0	0	168,544	168,544
Contributions and Donations	900	0	12,674	13,574
Miscellaneous	23,857	0	0	23,857
<i>Total Revenues</i>	<u>6,059,554</u>	<u>149,464</u>	<u>1,098,132</u>	<u>7,307,150</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,045,913	0	290,835	3,336,748
Special	607,287	0	231,293	838,580
Other	16,126	0	49,389	65,515
<i>Support Services:</i>				
Pupils	352,990	0	5,584	358,574
Instructional Staff	129,237	0	102,148	231,385
Board of Education	36,094	0	0	36,094
Administration	478,374	0	0	478,374
Fiscal	242,710	4,944	837	248,491
Business	5,048	0	0	5,048
Operation and Maintenance of Plant	583,341	0	0	583,341
Pupil Transportation	538,473	0	3,579	542,052
Central	71,042	0	5,000	76,042
Operation of Non-Instructional Services	5,525	0	365,581	371,106
Extracurricular Activities	114,056	0	101,488	215,544
Capital Outlay	85,805	0	8,291	94,096
<i>Debt Service:</i>				
Principal Retirement	0	45,000	0	45,000
Interest and Fiscal Charges	0	72,698	0	72,698
<i>Total Expenditures</i>	<u>6,312,021</u>	<u>122,642</u>	<u>1,164,025</u>	<u>7,598,688</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(252,467)</u>	<u>26,822</u>	<u>(65,893)</u>	<u>(291,538)</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds from the Sale of Capital Assets	245	0	0	245
Transfers In	0	0	10,060	10,060
Transfers Out	(10,060)	0	0	(10,060)
<i>Total Other Financing Sources (Uses)</i>	<u>(9,815)</u>	<u>0</u>	<u>10,060</u>	<u>245</u>
<i>Net Change in Fund Balances</i>	<u>(262,282)</u>	<u>26,822</u>	<u>(55,833)</u>	<u>(291,293)</u>
<i>Fund Balances at Beginning of Year</i>	<u>700,131</u>	<u>238,010</u>	<u>156,403</u>	<u>1,094,544</u>
<i>Fund Balances at End of Year</i>	<u>\$437,849</u>	<u>\$264,832</u>	<u>\$100,570</u>	<u>\$803,251</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, 2006*

Net Change in Fund Balances - Total Governmental Funds (\$291,293)

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

Governmental funds report expenditures as capital outlays. 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. (324,005)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,944)

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

Property taxes	22,281	
Intergovernmental revenue	(4,127)	
Total		18,154

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 45,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 208

Some items 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. These activities consist of:
Compensated absences (16,114)

An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities. (18,292)

Change in Net Assets of Governmental Activities (\$593,286)

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$987,353	\$1,076,150	\$1,074,874	(\$1,276)
Intergovernmental	4,313,000	4,404,594	4,431,096	26,502
Interest	45,000	75,000	79,188	4,188
Tuition and Fees	350,995	376,538	375,129	(1,409)
Rent	24,000	26,000	25,396	(604)
Gifts and Donations	500	500	900	400
Miscellaneous	2,200	5,224	5,380	156
Total Revenues	5,723,048	5,964,006	5,991,963	27,957
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,079,555	3,130,726	3,099,343	31,383
Special	667,043	612,211	614,091	(1,880)
Other	18,606	20,924	19,822	1,102
<i>Support Services:</i>				
Pupils	387,930	373,022	365,110	7,912
Instructional Staff	215,782	172,683	157,701	14,982
Board of Education	33,009	37,495	37,469	26
Administration	521,145	501,520	492,156	9,364
Fiscal	257,657	250,839	242,854	7,985
Business	5,250	5,650	5,048	602
Operation and Maintenance of Plant	645,703	643,254	607,514	35,740
Pupil Transportation	612,263	614,819	611,244	3,575
Central	71,841	97,884	70,698	27,186
Operation of Non-Instructional Services	0	5,525	5,525	0
Extracurricular Activities	116,631	115,211	110,618	4,593
Capital Outlay	94,113	89,474	89,474	0
Total Expenditures	6,726,528	6,671,237	6,528,667	142,570
Excess of Revenues Over (Under) Expenditures	(1,003,480)	(707,231)	(536,704)	170,527
<u>Other Financing Sources and Uses:</u>				
Proceeds from Sale of Fixed Assets	1,200	245	245	0
Advances In	0	0	65,227	65,227
Transfers Out	0	0	(10,060)	(10,060)
Advances Out	0	0	(6,465)	(6,465)
Total Other Financing Sources and Uses	1,200	245	48,947	48,702
Net Change in Fund Balances	(1,002,280)	(706,986)	(487,757)	219,229
Fund Balance at Beginning of Year	1,303,907	1,303,907	1,303,907	0
Prior Year Encumbrances Appropriated	118,558	118,558	118,558	0
Fund Balance at End of Year	\$420,185	\$715,479	\$934,708	\$219,229

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$125,862</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>2,521</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$123,341</u></u>

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006*

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Other Revenue	\$39,316
<u>Operating Expenses:</u>	
Claims	57,608
<i>Change in Net Assets</i>	(18,292)
<i>Net Assets at Beginning of Year</i>	141,633
<i>Net Assets at End of Year</i>	\$123,341

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$39,316
Cash Payments for Claims	<u>(57,983)</u>
<i>Net Cash from Operating Activities</i>	<u>(18,667)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(18,667)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>144,529</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$125,862</u></u>
<u>Reconciliation of Operating Loss</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Loss	(\$18,292)
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash from Operating Activities:</u>	
<i>Increase (Decrease) in Liabilities:</i>	
Claims Payable	<u>(375)</u>
Total Adjustments	<u>(375)</u>
<i>Net Cash from Operating Activities</i>	<u><u>(\$18,667)</u></u>

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2006

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$31,266</u>
<u>Liabilities:</u>	
Due to Students	<u>\$31,266</u>

See accompanying notes to the basic financial statements.

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EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Eastern Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1956. The District serves an area of approximately 115 square miles. It is located in Meigs County, and includes the communities of Reedsville, Tupper Plains and Chester, and the Townships of Orange, Olive, Chester and a portion of Bedford. It is staffed by 39 non-certificated employees, 70 certificated full-time teaching personnel and 5 administrative employees who provide services to 818 students and other community members. The District currently operates 2 instructional buildings, 1 administrative building and 1 garage.

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 District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Eastern Local School District, this includes general operations, food service, and student related activities of the District.

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

The District is associated with three organizations, two of which are defined as jointly governed organizations and one as an insurance purchasing pool. These organizations are the Southeast Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools and the Ohio School Boards Association Worker's Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

The District's basic financial statement consists of government-wide financial 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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, 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes 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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following are the District's major governmental funds:

General Fund- This fund is the operating fund of the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

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

Proprietary Fund

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides dental benefits to employees.

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. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of 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 balance 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, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. 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 and the financial statements of the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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 Nonexchange 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 are collectible 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 District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the 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 year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the 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 the fiscal year-end: property taxes available for advance, tuition and fees, grants and interest.

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, 2006, but which were levied to finance fiscal year 2007 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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

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

During the fiscal year 2006, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

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 2006 amounted to \$76,408, which includes \$24,486 assigned from other District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for textbooks, capital improvements and budget stabilization. See Note 16 for additional information regarding set-asides.

I. Capital Assets

General capital assets are associated with and generally arise from governmental activities. These assets generally 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 capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land and construction in progress, 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	20 years
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	8 years
Library Books and Textbooks	5 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

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

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

L. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, special termination of benefits 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. Long-term bonds are recognized as a liability on the fund financial statements when due.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

N. Fund Balance Reserves

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

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserves for textbooks and instructional materials, capital improvements and budget stabilization represent money required to be set-aside by statute and are explained in more detail in Note 16.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

P. Interfund Transactions

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2006, the District reported no extraordinary or special items.

R. Estimates

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

S. 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 sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund and function.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2006.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

NOTE 3 - PRIOR PERIOD ADJUSTMENT AND NEW GASB PRONOUNCEMENTS

Prior Period Adjustment

It was found that the District's June 30, 2005 capital asset valuation had an error in the calculation of accumulated depreciation. Therefore, the capital assets at June 30, 2005 were overstated.

	<u>Governmental Activities</u>
Net Assets at June 30, 2005	\$9,746,558
Overstatement of Capital Assets	<u>(1,335)</u>
Adjusted Net Assets at June 30, 2005	<u><u>\$9,745,223</u></u>

New GASB Pronouncements

For fiscal year 2006, the District implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits." The implementation of GASB Statement No. 46 and 47 had some effect on the disclosure requirements, however, there was no effect on the prior period fund balances of the District.

NOTE 4 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2006:

<i>Nonmajor Special Revenue Funds:</i>	
Food Service	\$45,061
PBS Grant	68
DPIA	39,303
Summer Intervention	229
Title VI	14,556
Title I	1,969
Title VI	641
Reducing Class Size	498

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier 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 (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance.
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

<u>Net Change in Fund Balance</u>	
Budget Basis	(\$487,757)
<i>Adjustments:</i>	
Revenue Accruals	67,591
Expenditure Accruals	61,195
Encumbrances	155,451
Other Sources (Uses)	(58,762)
GAAP Basis	<u><u>(\$262,282)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS-(Continued)

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.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities equal to at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During fiscal year 2006, the District complied with the provisions of these statutes.

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 fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS-(Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposits and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2006, the carrying amount of all District deposits was \$470,551. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2006, \$473,051 of the District's bank balance of \$573,051 was exposed to custodial risk as discussed above while \$100,000 was covered by Federal Deposit Insurance. The \$473,051 exposed to custodial risk was collateralized with securities held by the District or its agency in the District's name.

Investments: As of June 30, 2006, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$1,259,958	\$1,259,958
Totals	<u>\$1,259,958</u>	<u>\$1,259,958</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard and Poor's has assigned STAROhio an "AAAm" money market rating.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the District or not.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

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

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

The District receives property taxes from Meigs County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the June 2006 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2006 was \$103,336 and is recognized as revenue. Of this total amount, \$90,739 was available to the General Fund, \$10,782 was available to the Bond Retirement Debt Service Fund, and \$1,815 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

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

	2005 Second-Half Collections		2006 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$49,438,230	85.95%	\$49,846,960	85.63%
Public Utility Personal	5,961,530	10.36%	5,972,630	10.26%
Tangible Personal Property	2,120,510	3.69%	2,390,430	4.11%
Total Assessed Value	<u>\$57,520,270</u>	<u>100.00%</u>	<u>\$58,210,020</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation		\$23.00		\$22.80

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006 consisted of property taxes, accounts (student fees), 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 year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
<i>Nonmajor Special Revenue Funds:</i>	
Food Service	\$18,311
Title VI-B	32,304
Title I	26,790
Drug Free Grant	3,126
Reducing Class Size	7,071
Miscellaneous Federal Grants	2,410
Total Intergovernmental Receivables	<u><u>\$90,012</u></u>

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2006 was as follows:

<u>Asset Category</u>	<u>Restated Balance at July 1, 2005</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2006</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$23,487	\$0	\$0	\$23,487
Total Nondepreciable Capital Assets	23,487	0	0	23,487
<i>Depreciable Capital Assets:</i>				
Land Improvements	394,492	0	0	394,492
Buildings and Improvements	10,800,769	6,123	0	10,806,892
Furniture, Fixtures and Equipment	1,590,105	37,185	(67,830)	1,559,460
Vehicles	854,489	62,405	0	916,894
Library Books and Textbooks	286,925	42,582	0	329,507
Total Depreciable Capital Assets	13,926,780	148,295	(67,830)	14,007,245
Total Capital Assets	13,950,267	148,295	(67,830)	14,030,732
<i>Accumulated Depreciation:</i>				
Land Improvements	(132,036)	(18,702)	0	(150,738)
Buildings and Improvements	(2,630,233)	(237,190)	0	(2,867,423)
Furniture, Fixtures and Equipment	(919,140)	(105,794)	60,886	(964,048)
Vehicles	(441,161)	(65,174)	0	(506,335)
Library Books and Textbooks	(185,036)	(45,440)	0	(230,476)
Total Accumulated Depreciation	(4,307,606)	(472,300)	60,886	(4,719,020)
Total Net Capital Assets	\$9,642,661	(\$324,005)	(\$6,944)	\$9,311,712

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$119,728
Special	29,926
<i>Support Services:</i>	
Pupils	2,734
Instructional Staff	1,356
Administration	3,966
Fiscal	1,926
Operation and Maintenance of Plant	203,119
Pupil Transportation	69,407
<i>Operation of Non-Instructional Services:</i>	
Food Service	11,944
Extracurricular Activities	28,194
	<hr/>
Total Depreciation Expense	<u><u>\$472,300</u></u>

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Indiana Insurance/The Netherlands Company for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

Commercial Property (\$1,000 deductible)/Inland Marine (\$500 deductible)	\$18,694,943
Automobile Liability (\$1,000 deductible for collision and \$500 for comprehensive)	1,000,000
<i>General Liability:</i>	
Per Occurrence (\$2,500 deductible)	1,000,000
Aggregate Limit	2,000,000
Commercial Umbrella Liability (any one occurrence)	3,000,000

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.

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

The District provides a dental insurance program for its employees. Premiums are paid directly to a third party administrator, Medical Claims Services, Inc., out of the District's Self-Insurance Internal Service Fund. Medical Claims Services, Inc. services all claims submitted by employees. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs. This District pays 100% of the premiums for dental insurance.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$2,521 reported at June 30, 2006 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past fiscal year is as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2005	\$2,819	\$56,367	\$56,290	\$2,896
2006	2,896	57,608	57,983	2,521

During fiscal year 2003, the District elected to stop providing medical and prescription drug benefits through the Self-Insurance Internal Service Fund and switch to a fully funded plan. The District's dental insurance program remains a self-funded plan, which represents the claims payable as June 30, 2006.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The 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 State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.58 percent of the 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 District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$88,507, \$91,702, and \$65,929, respectively; 52.54 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$42,002 representing the unpaid contribution for fiscal year 2006, is recorded as a liability in the statement of net assets.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides basic 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 the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to 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 fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by 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.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$378,535, \$372,726, and \$353,072, respectively; 84.18 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$59,871 representing the unpaid contribution for fiscal year 2006, is recorded as a liability in the statement of net assets. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,475 made by the District and \$3,309 made by the plan members.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 Ohio retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$28,391 during fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the District, the amount to fund health care benefits, including the surcharge, equaled \$172,896 during the 2006 fiscal year.

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 health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants eligible to receive health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 13 - EMPLOYEE BENEFITS - (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for classified employees and 245 for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 50 days for classified employees and 50 days for certified employees.

Health, Prescription Drug, and Life Insurance

On October 1, 2002, the District began providing medical and prescription drug insurance coverage through a fully funded plan with Anthem. The District pays \$1,042 for family and \$387 for single coverage per month, which represents 100% of the monthly premiums respectively.

The District provides life insurance and accidental death and dismemberment insurance to all employees through Anthem in the amount of \$20,000 for classified employees, and \$15,000 for certified employees. The Superintendent, Treasurer, and three principals have life insurance that is equal to their yearly salaries. The District pays 100% of the premiums.

NOTE 14 - LONG-TERM LIABILITIES

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

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding at June 30, 2006</u>	<u>Amount Due in One Year</u>
<u>Governmental Activities:</u>							
Renovation Bonds	1997	5.80%	\$1,200,000	\$0	\$45,000	\$1,155,000	\$50,000
Compensated Absences			172,142	73,013	56,899	188,256	34,472
Total Governmental Activities Long-Term Liabilities			<u>\$1,372,142</u>	<u>\$73,013</u>	<u>\$101,899</u>	<u>\$1,343,256</u>	<u>\$84,472</u>

General Obligation Renovation Bonds - In 1997, Eastern Local School District issued \$1,455,000 in voted general obligation bonds for the purpose of renovating the Middle School, High School and smaller projects at several other facilities. The bonds were issued for a twenty-three year period with final maturity at December 1, 2020. The proceeds from the sale of these bonds were recorded in the Building Fund. These bonds are retired through the Bond Retirement Debt Service Fund using tax revenues.

The compensated absences are paid from the fund from which the respective employees' salaries are paid.

The District's overall legal debt margin was \$4,083,902 with an unvoted debt margin of \$58,210 at June 30, 2006.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

The annual requirements to retire the general obligation renovation bonds outstanding at June 30, 2006 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Renovation Bonds</u>
2007	\$119,705
2008	116,555
2009	118,385
2010	120,035
2011	121,265
2012-2016	586,690
2019-2021	586,995
Total Debt Payments	1,769,630
Less: Amount Representing Interest	614,630
Total Principal	<u><u>\$1,155,000</u></u>

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2006, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<i>General Fund</i>	\$6,466	\$0
<i>Nonmajor Special Revenue Funds:</i>		
Title VI	0	446
Drug Free Grant	0	3,000
Reducing Class Size	0	3,020
Total Nonmajor Special Revenue	0	6,466
Total	<u><u>\$6,466</u></u>	<u><u>\$6,466</u></u>

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 15 - INTERFUND ACTIVITY - (Continued)

All the interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

Fund	Transfers In	Transfers Out
General	\$0	\$10,060
<i>Nonmajor Special Revenue Funds:</i>		
Food Service	10,000	0
Uniform School Supply	60	0
Total	\$10,060	\$10,060

Transfers are generally used to either (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During fiscal year 2006, the District made a transfer of \$10,060 from the General Fund to the Food Service and Uniform School Supply Special Revenue Funds to subsidize operations.

NOTE 16 - STATUTORY SET-ASIDES

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2006:

	Textbooks	Capital Improvements	Budget Stabilization	Totals
Set-Aside Balance as of July 1, 2005	\$89,719	\$52,288	\$52,866	\$194,873
Current Year Set-Aside Requirement	124,721	124,721	0	249,442
Current Year Offset	0	(23,886)	0	(23,886)
Qualifying Disbursements	(99,620)	(149,250)	0	(248,870)
Total	114,820	3,873	52,866	171,559
Set-Aside Balance as of June 30, 2006	\$114,820	\$3,873	\$52,866	
Total Restricted Assets				\$171,559

The District can have qualifying disbursements during the year that exceed the current year set-aside requirements in both the textbook and capital improvement reserve accounts. Each reserve must be represented by restricted cash at year-end and carried forward to be used for the same purposes in future years.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 16 - STATUTORY SET-ASIDES - (Continued)

Senate Bill 345 eliminated the Budget Stabilization Reserve, except for amounts related to unspent Bureau of Workers Compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve. The Board of Education designated, by motion, that the reserve will be used to address unforeseen or emergency situations.

NOTE 17 - JOINTLY GOVERNED ORGANIZATION

Southeast Ohio Voluntary Education Cooperative (SEOVEC)

Southeast Ohio Voluntary Education Cooperative, is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC has 35 participants consisting of 26 school districts and 9 county boards of education. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. Each member district pays a fee annually for services provided by SEOVEC. SEOVEC is governed by a governing board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Education Cooperative, 221 North Columbus Road, Athens, Ohio 45701. The District made payments of \$8,910 to SEOVEC in fiscal year 2006.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various inservice for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for the Council. The District made no significant payments for membership in fiscal year 2006.

NOTE 18 - INSURANCE PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Plan

The District participates in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), and 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.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 19 - CONTINGENCIES

Grants

The 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 District at June 30, 2006.

NOTE 20 - SUBSEQUENT EVENT

In December 2006, the District issued \$1,055,000 in Classroom Facilities Refunding Bonds for the renovation of the high school and construction of a K-8 building.

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**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$	\$ 3,142	\$	\$ 3,142
Child Nutrition Cluster:						
School Breakfast Program	10.553	05-PU-05	13,813		13,813	
		05-PU-06	<u>37,202</u>		<u>37,202</u>	
Total School Breakfast Program			<u>51,015</u>	<u>0</u>	<u>51,015</u>	<u>0</u>
National School Lunch Program	10.555	LL-P4-05	30,235		30,235	
		LL-P4-06	<u>81,657</u>		<u>81,657</u>	
Total National School Lunch Program			<u>111,892</u>	<u>0</u>	<u>111,892</u>	<u>0</u>
Total Child Nutrition Cluster			<u>162,907</u>	<u>0</u>	<u>162,907</u>	<u>0</u>
Total United States Department of Agriculture			162,907	3,142	162,907	3,142
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-05	20,168		25,491	
		C1-S1-06	<u>135,555</u>		<u>131,160</u>	
Total Title I Grants to Local Educational Agencies			<u>155,723</u>	<u>0</u>	<u>156,651</u>	<u>0</u>
Special Education - Grants to States	84.027	6B-SF-05	40,273		27,912	
		6B-SF-06	<u>185,412</u>		<u>178,278</u>	
Total Special Education - Grants to States			<u>225,685</u>	<u>0</u>	<u>206,190</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-05	2,113		2,159	
		DR-S1-06	<u>3,362</u>		<u>3,042</u>	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>5,475</u>	<u>0</u>	<u>5,201</u>	<u>0</u>
State Grants for Innovative Programs	84.298	C2-S1-05	2,015			
		C2-S1-06	<u>27,889</u>		<u>28,335</u>	
Total State Grants for Innovative Programs			<u>29,904</u>	<u>0</u>	<u>28,335</u>	<u>0</u>
Education Technology State Grants	84.318	TJ-S1-05	5,031		5,776	
		TJ-S1-06	<u>246</u>		<u>235</u>	
Total Education Technology State Grants			<u>5,277</u>	<u>0</u>	<u>6,011</u>	<u>0</u>
Improving Teacher Quality State Grants	84.367	TR-S1-05	6,828		5,113	
		TR-S1-06	<u>20,784</u>		<u>23,775</u>	
Total Improving Teacher Quality State Grants			<u>27,612</u>	<u>0</u>	<u>28,888</u>	<u>0</u>
Total United States Department of Education			<u>449,676</u>	<u>0</u>	<u>431,276</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 612,583</u>	<u>\$ 3,142</u>	<u>\$ 594,183</u>	<u>\$ 3,142</u>

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION

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

NOTE D – TRANSFERS

During fiscal year 2006, the Ohio Department of Education (ODE) authorized the District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the carryovers is as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I - Grants to Local Educational Agencies	C1S1-2005	\$ 8,089	
84.010	Title I - Grants to Local Educational Agencies	C1S1-2006		\$ 8,089
84.027	Speical Education - Grants to State	6BSF-2005	2,063	
84.027	Speical Education - Grants to State	6BSF-2006		2,063
84.186	Safe and Drug-Free Schools and Communties	DRS1-2005	449	
84.186	Safe and Drug-Free Schools and Communties	DRS1-2006		449
84.367	Improving Teacher Quality State Grants	TRS1-2005	1,243	
84.367	Improving Teacher Quality State Grants	TRS1-2006		1,243
Totals			<u>\$ 11,844</u>	<u>\$ 11,844</u>



Mary Taylor, CPA

Auditor of State

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

Eastern Local School District
Meigs County
50008 State Route 681
Reedsville, Ohio 45772

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Meigs County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures 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.

Compliance and Other Matters

As part of reasonably assuring whether the 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 we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 8, 2007, we reported other matters related to noncompliance we deemed immaterial.

Eastern Local School District
Meigs County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page2

We intend this report solely for the information and use of the audit committee, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 8, 2007



Mary Taylor, CPA

Auditor of State

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

Eastern Local School District
Meigs County
50008 State Route 681
Reedsville, Ohio 45772

To the Board of Education:

Compliance

We have audited the compliance of Eastern Local School District, Meigs County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The 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 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 other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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.

We intend this report solely for the information and use of the audit committee, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 8, 2007

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster – CFDA #10.553 and 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

EASTERN LOCAL SCHOOL DISTRICT

MEIGS 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
APRIL 10, 2007**