



Dave Yost • Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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Dave Yost • 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 the Eastern Local School District, Meigs County, Ohio (the District), as of and for the year ended June 30, 2011, 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 the Eastern Local School District, Meigs County, Ohio, as of June 30, 2011, 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.

As described in Note 3, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 7, 2012

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The discussion and analysis of the Eastern Local School District's (District's) financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2011. 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.

Financial Highlights

- ▶ The assets of the District exceeded its liabilities at June 30, 2011 by \$8,523,871. Of this amount, \$7,854,577 represents the amount invested in capital assets, net of related debt and net asset amounts restricted for specific purposes. The remaining \$669,294 represents unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$68,459, which represents a 0.81 percent increase from 2010.
- ▶ General revenues accounted for \$6,577,441 or 74.20 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,281,780 or 25.80 percent of total revenues of \$8,859,221.
- ▶ The District had \$8,790,762 in expenses related to governmental activities; only \$2,281,780 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 \$6,577,441 and net assets carried over from 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 \$7,476,302 in revenues and \$6,929,271 in expenditures in fiscal year 2011.

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 the 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, 2011
(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.

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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
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(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 2011 compared to fiscal year 2010:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2011	2010
<u>Assets:</u>		
Current and Other Assets	\$3,712,467	\$3,781,488
Capital Assets, Net	7,885,161	8,102,564
<i>Total Assets</i>	<u>11,597,628</u>	<u>11,884,052</u>
<u>Liabilities:</u>		
Long-Term Liabilities	1,109,683	1,184,966
Other Liabilities	1,964,074	2,243,674
<i>Total Liabilities</i>	<u>3,073,757</u>	<u>3,428,640</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	7,013,743	7,166,417
Restricted	840,834	828,061
Unrestricted	669,294	460,934
<i>Total Net Assets</i>	<u><u>\$8,523,871</u></u>	<u><u>\$8,455,412</u></u>

Current and other assets decreased \$69,021 from fiscal year 2010 due to a decrease in cash and cash equivalents held by the District. Capital assets decreased by \$217,403 or 2.68 percent due to current year depreciation expense.

Current (other) liabilities decreased by \$279,600 or 12.46 percent primarily due to a decrease in deferred revenue related to property taxes receivable.

Long-term liabilities decreased by \$75,283 due to scheduled payments for bonds.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. This accounts for 82.28 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.

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The next largest balance of \$840,834 or 9.86 percent is restricted net assets. The restricted net assets are subjected to external restrictions on how they may be used.

The District's smallest portion of net assets is unrestricted. This accounts for 7.86 percent of all net assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

Table 2 shows the changes in net assets for fiscal year 2011 and provides a comparison to fiscal year 2010.

Table 2
Changes in Net Assets

	Governmental Activities	
	2011	2010
<u>Revenues:</u>		
<i>Program Revenue:</i>		
Charges for Services and Sales	\$847,709	\$858,098
Operating Grants and Contributions	1,434,071	5,234,476
<i>General Revenue:</i>		
Property Taxes	1,338,048	603,159
Unrestricted Grants and Entitlements	5,176,474	1,264,024
Investment Earnings	9,403	18,009
Miscellaneous	53,516	31,703
Total Revenues	8,859,221	8,009,469
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	3,995,931	4,217,635
Special	971,100	850,479
Student Intervention Services	13,138	9,097
Other	0	1,213

(Continued)

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2
Changes in Net Assets
(Continued)

	2011	2010
<i>Support Services:</i>		
Pupils	447,235	475,573
Instructional Staff	392,458	368,832
Board of Education	33,117	27,758
Administration	547,988	670,216
Fiscal	270,390	304,373
Operation and Maintenance of Plant	809,671	802,986
Pupil Transportation	584,654	557,225
Central	100,798	104,561
<i>Operation of Non-Instructional Services:</i>		
Food Service	374,535	420,566
Other	7,358	43,538
Extracurricular Activities	196,643	229,779
Interest and Fiscal Charges	45,746	49,118
<i>Total Expenses</i>	<u>8,790,762</u>	<u>9,132,949</u>
<i>Change in Net Assets</i>	68,459	(1,123,480)
Net Assets – Beginning of Year	<u>8,455,412</u>	<u>9,578,892</u>
Net Assets – End of Year	<u><u>\$8,523,871</u></u>	<u><u>\$8,455,412</u></u>

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 78.60 percent of the total governmental activities. Regular Instruction, which accounts for 45.46 percent of the total, represents costs associated with providing general educational services. Special Instruction, 11.05 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 9.21 percent of the total, represent costs associated with operating and maintaining the District's facilities. Pupil Transportation, which represents 6.65 percent of the total, represents costs associated with providing transportation services for students between home and school and to school activities. Administration, which represents 6.23 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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(Unaudited)

The majority of the funding for the most significant programs indicated above is from operating grants and contributions and grants and entitlements not restricted for specific programs. Operating grants and contributions and grants and entitlements not restricted for specific programs account for 74.62 percent of total revenues.

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 15.10 percent and intergovernmental revenue made up 74.62 percent of the total revenue for the governmental activities in fiscal year 2011.

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 2011, the District received \$4,869,395 through the State's foundation program, which represents 54.96 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 56.65 percent of governmental activities program expenses. Support services expenses make up 36.25 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 2011 compared with fiscal year 2010. 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
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(Unaudited)

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2011	2011	2010	2010
<i>Program Expenses:</i>				
Instruction	\$4,980,169	\$3,621,890	\$5,078,424	\$803,201
Support Services	3,186,311	2,900,433	3,311,524	2,026,620
Operation of Non-Instructional Services	381,893	(179,387)	464,104	30,988
Extracurricular Activities	196,643	120,300	229,779	130,448
Interest and Fiscal Charges	45,746	45,746	49,118	49,118
Total Expenses	<u>\$8,790,762</u>	<u>\$6,508,982</u>	<u>\$9,132,949</u>	<u>\$3,040,375</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 of \$9,383,115 and expenditures of \$8,641,738.

Total governmental funds fund balance increased by \$741,377. The increase in fund balance for the year was most significant in the General Fund, an increase of \$547,031 due primarily to an increase in revenues. The fund balance in the Bond Retirement Fund increased \$73,347 due primarily to an increase in revenues during the year.

The District should remain stable in fiscal years 2012 through 2013. However, projections beyond fiscal year 2013 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 2011, the District amended its General Fund budget several 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
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(Unaudited)

For the General Fund, the final budget basis revenue was \$7,120,927 representing a \$372,586 increase from the original budget estimate of \$6,748,341. The final budget reflected a 5.52 percent increase from the original budgeted amount. Most of this difference was due to the underestimate of intergovernmental revenue and gifts and donations. For the General Fund, the final budget basis expenditures were \$7,489,262, representing a \$1,984 decrease from the original budgeted expenditures of \$7,491,246.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$14.4 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$6.5 million. Table 4 shows fiscal year 2011 balances compared to fiscal year 2010.

Table 4
Capital Assets & Accumulated Depreciation

	<u>Governmental Activities</u>	
	2011	2010
<i>Nondepreciable Capital Assets:</i>		
Land	\$23,487	\$23,487
<i>Depreciable Capital Assets:</i>		
Land Improvements	394,492	394,492
Buildings and Improvements	10,958,429	10,828,892
Furniture, Fixtures and Equipment	1,648,607	1,607,657
Vehicles	918,310	918,310
Library Books and Textbooks	491,265	479,625
<i>Total Capital Assets</i>	14,434,590	14,252,463
<i>Less Accumulated Depreciation:</i>		
Land Improvements	241,253	224,557
Buildings and Improvements	4,058,653	3,816,527
Furniture, Fixtures and Equipment	1,194,316	1,163,993
Vehicles	644,394	584,042
Library Books and Textbooks	410,813	360,780
<i>Total Accumulated Depreciation</i>	6,549,429	6,149,899
Capital Assets, Net	\$7,885,161	\$8,102,564

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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 Note 9 of the notes to the basic financial statements.

Debt Administration

At June 30, 2011 the District had \$860,000 in bonds outstanding with \$65,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2011 compared to fiscal year 2010.

Table 5
Outstanding Debt

Purpose	Governmental Activities	
	2011	2010
School Improvement Refunding Bonds	\$860,000	\$925,000
Total	\$860,000	\$925,000

More detailed information pertaining to the District's long-term debt activity can be found in Note 14 of the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, the District is financially stable. The state is experiencing difficult economic times. The District is currently deficit spending and most monitor and cut operating costs. 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 Evidence Based Model, which along with other various grants and entitlements makes up 78.56 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. The district received an effective rating on the 2010-2011 report card achieving 20 out of 26 state performance indicators.

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. Substitute HB 153 introduced major changes in the reimbursement calculation and distribution schedule. Eastern Local School District does not meet the ration of tangible personal property replacement to total resources. The District will not receive any tangible personal property replacements funds after FY 2011. This is an estimated loss of \$40,000.

EASTERN LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)*

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.

Former Governor Ted Strickland proposed a new funding formula known as the Evidenced Based Model in FY 2010 and FY 2011. This funding model provided funding for specific positions and functions within a school district. Due to the economic condition of the state this funding was capped by a 0.75 % increase. Governor John Kasich began his term January 1, 2011 and proposed the elimination of the Evidenced Based Model for the upcoming biennium. A "Bridge" funding model will be used for FY 2012 and a committee will be formed to make recommendations for a funding model for FY 2013. 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.

The State of Ohio received \$895 million from the America Recovery and Reinvestment Act in State Fiscal Stabilization Funds. These funds were also use to help fill the deficit in state funds needed to finance the Evidence Based Model is fiscal year 2010 and 2011. These are not additional new funds, but federal stimulus funds being used to replace state funds that are not available. The District received \$331,505 in State Fiscal Stabilization Funds in FY 2010 and \$417,578 in FY 2011.

The federal government introduced a second round of stimulus funding, the Education Jobs Fund, for school districts on August 10, 2010. These funds were in response to states not having adequate funds to support education. Huge teacher lay-offs were being announced nationwide. Ohio is estimated to receive \$361 million from the program. The District is estimated to receive \$311,681 from the Education Jobs Grant. The District plans on using these funds to help cover the cost of educational jobs in FY 2012.

State income tax revenue and sales tax revenue currently is being received at greater amounts than estimated. Unemployment rates are currently slightly lower than one year ago. A significant burden will be placed on school districts throughout Ohio if the economy does not recover to replace the federal stimulus funds currently being received. The district receives 78% of its operating revenue from state sources.

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(Unaudited)

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.

EASTERN LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,763,858
Property Taxes Receivable	1,696,290
Accounts Receivable	4,282
Intergovernmental Receivable	92,439
Prepaid Items	34,015
Materials and Supplies Inventory	22,412
<i>Restricted Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	52,866
Deferred Charges	46,305
Nondepreciable Capital Assets	23,487
Depreciable Capital Assets, Net	<u>7,861,674</u>
<i>Total Assets</i>	<u>11,597,628</u>
<u>Liabilities:</u>	
Accounts Payable	2,445
Accrued Wages and Benefits	823,025
Intergovernmental Payable	275,867
Accrued Interest Payable	3,511
Deferred Revenue	855,310
Claims Payable	3,916
<i>Long-Term Liabilities:</i>	
Due within One Year	100,474
Due in More Than One Year	<u>1,009,209</u>
<i>Total Liabilities</i>	<u>3,073,757</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	7,013,743
<i>Restricted for:</i>	
Capital Outlay	7,538
Debt Service	469,405
Other Purposes	363,891
Unrestricted	<u>669,294</u>
<i>Total Net Assets</i>	<u><u>\$8,523,871</u></u>

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and
				Changes in Net Assets
				Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$3,995,931	\$616,993	\$517,955	(\$2,860,983)
Special	971,100	0	215,338	(755,762)
Student Intervention Services	13,138	0	7,993	(5,145)
<i>Support Services:</i>				
Pupils	447,235	0	64,107	(383,128)
Instructional Staff	392,458	0	212,221	(180,237)
Board of Education	33,117	0	0	(33,117)
Administration	547,988	0	0	(547,988)
Fiscal	270,390	0	0	(270,390)
Operation and Maintenance of Plant	809,671	0	0	(809,671)
Pupil Transportation	584,654	0	0	(584,654)
Central	100,798	0	9,550	(91,248)
<i>Operation of Non-Instructional Services:</i>				
Food Service	374,535	171,978	228,961	26,404
Other	7,358	291	160,050	152,983
Extracurricular Activities	196,643	58,447	17,896	(120,300)
Interest and Fiscal Charges	45,746	0	0	(45,746)
<i>Total Governmental Activities</i>	<u>\$8,790,762</u>	<u>\$847,709</u>	<u>\$1,434,071</u>	<u>(6,508,982)</u>
 <u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				1,186,499
Debt Service				130,479
Capital Outlay				21,070
Grants and Entitlements not Restricted to Specific Programs				5,176,474
Investment Earnings				9,403
Miscellaneous				53,516
<i>Total General Revenues</i>				<u>6,577,441</u>
Change in Net Assets				68,459
<i>Net Assets at Beginning of Year</i>				<u>8,455,412</u>
<i>Net Assets at End of Year</i>				<u>\$8,523,871</u>

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$777,855	\$390,917	\$530,756	\$1,699,528
Property Taxes Receivable	1,503,820	165,420	27,050	1,696,290
Accounts Receivable	4,241	0	41	4,282
Intergovernmental Receivable	0	0	92,439	92,439
Interfund Receivable	32,654	0	0	32,654
Prepaid Items	34,015	0	0	34,015
Materials and Supplies Inventory	19,223	0	3,189	22,412
<u>Restricted Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	52,866	0	0	52,866
Total Assets	\$2,424,674	\$556,337	\$653,475	\$3,634,486
<u>Liabilities:</u>				
Accounts Payable	\$2,445	\$0	\$0	\$2,445
Accrued Wages and Benefits	682,219	0	140,806	823,025
Interfund Payable	0	0	32,654	32,654
Intergovernmental Payable	216,920	0	58,947	275,867
Deferred Revenue	1,103,171	121,356	51,988	1,276,515
Total Liabilities	2,004,755	121,356	284,395	2,410,506
<u>Fund Balances:</u>				
Nonspendable	19,223	0	3,189	22,412
Restricted	52,866	434,981	166,479	654,326
Committed	0	0	278,764	278,764
Assigned	118,650	0	0	118,650
Unassigned	229,180	0	(79,352)	149,828
Total Fund Balances	419,919	434,981	369,080	1,223,980
Total Liabilities and Fund Balances	\$2,424,674	\$556,337	\$653,475	\$3,634,486

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, 2011*

Total Governmental Funds Balances \$1,223,980

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 7,885,161

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	389,060
Intergovernmental revenue	<u>32,145</u>

Total 421,205

Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds. 46,305

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Refunding Bonds	(860,000)
Premium on bonds issued	(57,723)
Accrued interest on bonds	(3,511)
Compensated absences	<u>(191,960)</u>

Total liabilities that are not reported in the funds (1,113,194)

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. 60,414

Net Assets of Governmental Activities \$8,523,871

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, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$1,514,034	\$166,514	\$27,218	\$1,707,766
Intergovernmental	5,164,428	23,361	1,286,850	6,474,639
Interest	6,352	0	3,051	9,403
Tuition and Fees	616,993	0	0	616,993
Extracurricular Activities	785	0	57,953	58,738
Rentals	26,418	0	0	26,418
Customer Sales and Services	0	0	171,978	171,978
Contributions and Donations	120,297	0	169,785	290,082
Miscellaneous	26,995	0	103	27,098
<i>Total Revenues</i>	<u>7,476,302</u>	<u>189,875</u>	<u>1,716,938</u>	<u>9,383,115</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,374,075	0	418,290	3,792,365
Special	627,312	0	289,623	916,935
Student Intervention Services	667	0	12,464	13,131
<i>Support Services:</i>				
Pupils	404,922	0	67,243	472,165
Instructional Staff	130,528	0	261,840	392,368
Board of Education	33,111	0	0	33,111
Administration	556,198	0	210	556,408
Fiscal	272,896	5,787	928	279,611
Operation and Maintenance of Plant	767,793	0	5,000	772,793
Pupil Transportation	524,927	0	6,661	531,588
Central	90,932	0	9,550	100,482
Operation of Non-Instructional Services	2,280	0	385,088	387,368
Extracurricular Activities	128,517	0	64,836	193,353
Capital Outlay	15,113	0	74,206	89,319
<i>Debt Service:</i>				
Principal Retirement	0	65,000	0	65,000
Interest and Fiscal Charges	0	45,741	0	45,741
<i>Total Expenditures</i>	<u>6,929,271</u>	<u>116,528</u>	<u>1,595,939</u>	<u>8,641,738</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	547,031	73,347	120,999	741,377
<i>Fund Balances at Beginning of Year, As Restated (See Note 3)</i>	<u>(127,112)</u>	<u>361,634</u>	<u>248,081</u>	<u>482,603</u>
<i>Fund Balances at End of Year</i>	<u>\$419,919</u>	<u>\$434,981</u>	<u>\$369,080</u>	<u>\$1,223,980</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, 2011*

Net Change in Fund Balances - Total Governmental Funds \$741,377

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. (212,629)

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. (4,774)

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	(369,718)	
Intergovernmental revenue	(154,176)	
Total		(523,894)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 65,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 266

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	5,920	
Deferred Charges	(4,634)	
Premium on bond issued	4,363	
Total		5,649

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. (2,536)

Change in Net Assets of Governmental Activities \$68,459

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, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$1,085,000	\$1,158,900	\$1,159,145	\$245
Intergovernmental	5,022,841	5,179,457	5,164,428	(15,029)
Interest	20,000	8,000	6,352	(1,648)
Tuition and Fees	591,900	615,145	616,018	873
Rent	25,000	27,800	26,418	(1,382)
Gifts and Donations	1,000	110,325	110,666	341
Miscellaneous	2,600	21,300	26,424	5,124
Total Revenues	6,748,341	7,120,927	7,109,451	(11,476)
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,601,655	3,533,645	3,408,296	125,349
Special	573,332	631,857	627,659	4,198
Student Intervention Services	4,676	4,676	953	3,723
<i>Support Services:</i>				
Pupils	522,510	522,510	420,030	102,480
Instructional Staff	161,831	155,508	128,245	27,263
Board of Education	40,951	40,951	33,718	7,233
Administration	616,522	616,522	573,391	43,131
Fiscal	316,083	316,083	284,985	31,098
Operation and Maintenance of Plant	846,813	841,512	835,539	5,973
Pupil Transportation	551,078	541,907	531,763	10,144
Central	101,331	101,331	92,269	9,062
Operation of Non-Instructional Services	6,528	6,528	2,280	4,248
Extracurricular Activities	132,710	132,710	128,357	4,353
Capital Outlay	15,226	43,522	43,521	1
Total Expenditures	7,491,246	7,489,262	7,111,006	378,256
Excess of Revenues Over (Under) Expenditures	(742,905)	(368,335)	(1,555)	366,780
<u>Other Financing Sources (Uses):</u>				
Advances In	0	0	476	476
Advances Out	0	0	(32,192)	(32,192)
Total Other Financing Sources (Uses)	0	0	(31,716)	(31,716)
Net Change in Fund Balances	(742,905)	(368,335)	(33,271)	335,064
Fund Balance at Beginning of Year	661,926	661,926	661,926	0
Prior Year Encumbrances Appropriated	82,158	82,158	82,158	0
Fund Balance at End of Year	\$1,179	\$375,749	\$710,813	\$335,064

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2011

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$64,330</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>3,916</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$60,414</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
June 30, 2011*

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Other Revenue	\$51,980
<u>Operating Expenses:</u>	
Claims	54,516
<i>Change in Net Assets</i>	(2,536)
<i>Net Assets at Beginning of Year</i>	62,950
<i>Net Assets at End of Year</i>	\$60,414

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, 2011

	<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	\$51,980
Cash Payments for Claims	<u>(55,329)</u>
<i>Net Cash from Operating Activities</i>	<u>(3,349)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(3,349)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>67,679</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$64,330</u></u>
<u>Reconciliation of Operating Loss</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Loss	(\$2,536)
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash from Operating Activities:</u>	
<i>Increase (Decrease) in Liabilities:</i>	
Claims Payable	<u>(813)</u>
Total Adjustments	<u>(813)</u>
<i>Net Cash from Operating Activities</i>	<u><u>(\$3,349)</u></u>

See accompanying notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2011

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$51,550</u>
<u>Liabilities:</u>	
Due to Students	<u>\$51,550</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, 2011

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, Tappers Plains and Chester, and the Townships of Orange, Olive, Chester and a portion of Bedford. It is staffed by 35 non-certificated employees, 61 certificated full-time teaching personnel and 5 administrative employees who provide services to 848 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 the 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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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.

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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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.

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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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.

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.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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

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, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. 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 2011, 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, 2011.

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 2011 amounted to \$6,352, which includes \$1,131 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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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, 2011, 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.

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 and budget stabilization. See Note 17 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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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:

Description	Estimated Lives
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.

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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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 judgments, 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

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted – The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

Committed – The committed fund balance category includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the District’s Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District’s Board of Education.

Unassigned – The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

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 2011, the District reported no extraordinary or special items.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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

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.

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 2011.

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 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

Changes in Accounting Principles

For fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the District's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments and external investment pools. The implementation of this statement did not result in any change in the District's financial statements.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES-

(Continued)

Restatement of Prior Year's Fund Balances

During 2011, it was determined that the implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds as they were previously reported.

	<u>General</u>	<u>Nonmajor Governmental Fund</u>
Fund Balances, June 30, 2010	(\$137,207)	\$258,176
GASB 54 Change in Fund Structure	<u>10,095</u>	<u>(10,095)</u>
Adjusted Fund Balances, June 30, 2010	<u>(\$127,112)</u>	<u>\$248,081</u>

NOTE 4 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2011:

Nonmajor Special Revenue Funds:

Title VI-B	\$21,185
Federal Support- Foundation	49,320
Title I	7,576
Reducing Class Size	1,271

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.

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:

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING-(Continued)

- 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>	
GAAP Basis	\$547,031
<i>Adjustments:</i>	
Revenue Accruals	(366,851)
Expenditure Accruals	(73,410)
Encumbrances	(108,325)
Other Sources (Uses)	<u>(31,716)</u>
Budget Basis	<u><u>(\$33,271)</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.

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

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 6 - DEPOSITS AND INVESTMENTS-(Continued)

Public depositories must give security for all public funds on deposit. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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.

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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 6 - DEPOSITS AND INVESTMENTS-(Continued)

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. 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, 2011, the carrying amount of all District deposits was \$992,842. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2011, \$854,734 of the District's bank balance of \$1,104,734 was exposed to custodial risk as discussed above while \$250,000 was covered by Federal Deposit Insurance. The \$854,734 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, 2011, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$875,432	\$875,432
Totals	\$875,432	\$875,432

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 "AAA" money marked 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, 2011*

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2008, on the assessed value listed as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2010 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2007, were levied after April 1, 2008 and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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, 2011 are available to finance fiscal year 2011 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 2011 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2011. 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, 2011 was \$451,920 and is recognized as revenue. Of this total amount, \$400,649 was available to the General Fund, \$44,064 was available to the Bond Retirement Debt Service Fund, and \$7,207 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 7 - PROPERTY TAXES-(Continued)

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$57,548,090	90.35%	\$61,437,750	90.21%
Public Utility Personal	6,146,170	9.65%	6,670,880	9.79%
Total Assessed Value	<u>\$63,694,260</u>	<u>100.00%</u>	<u>\$68,108,630</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$22.80		\$22.80	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2011 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>	
Race to the Top Grant	\$3,639
Title VI-B	24,933
Title I	26,966
Reducing Class Size Grant	8,462
Miscellaneous Federal Grants	28,439
Total Intergovernmental Receivables	<u>\$92,439</u>

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 9 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2011 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2010</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2011</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	10,828,892	129,537	0	10,958,429
Furniture, Fixtures and Equipment	1,607,657	88,646	(47,696)	1,648,607
Vehicles	918,310	0	0	918,310
Library Books and Textbooks	479,625	11,640	0	491,265
Total Depreciable Capital Assets	14,228,976	229,823	(47,696)	14,411,103
Total Capital Assets	14,252,463	229,823	(47,696)	14,434,590
<i>Accumulated Depreciation:</i>				
Land Improvements	(224,557)	(16,696)	0	(241,253)
Buildings and Improvements	(3,816,527)	(242,126)	0	(4,058,653)
Furniture, Fixtures and Equipment	(1,163,993)	(73,245)	42,922	(1,194,316)
Vehicles	(584,042)	(60,352)	0	(644,394)
Library Books and Textbooks	(360,780)	(50,033)	0	(410,813)
Total Accumulated Depreciation	(6,149,899)	(442,452)	42,922	(6,549,429)
Total Net Capital Assets	<u>\$8,102,564</u>	<u>(\$212,629)</u>	<u>(\$4,774)</u>	<u>\$7,885,161</u>

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$277,052
Special	53,351
<i>Support Services:</i>	
Pupils	4,101
Administration	1,367
Fiscal	382
Operation and Maintenance of Plant	37,047
Pupil Transportation	54,646
<i>Operation of Non-Instructional Services:</i>	
Food Service	11,284
Extracurricular Activities	3,222
Total Depreciation Expense	<u><u>\$442,452</u></u>

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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 2011, the District contracted with Ohio Casualty 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)	\$24,339,692
Inland Marine (\$500 deductible, radio; \$1,000, grounds maintenance equipment)	43,227
Musical Instruments, Uniforms, Athletic Equipment (\$500 deductible)	239,402
Automobile Liability (\$1,000 deductible for collision and \$500 for comprehensive)	1,000,000
Uninsured Motorists:	
Per Person	1,000,000
Per Accident	1,000,000
<i>General Liability:</i>	
Per Occurrence (\$2,500 deductible)	1,000,000
Aggregate Limit	2,000,000
<i>Commercial General Liability:</i>	
Each Occurrence	1,000,000
Personal and Advertising Injury	1,000,000
General Aggregate	2,000,000
Products/Completed Oper Aggregate	2,000,000
<i>Employee Benefits Liability:</i>	
Each Employee (\$1,000 deductible)	1,000,000
Aggregate	3,000,000
<i>Sexual Misconduct & Molestation Liability:</i>	
Occurrence/Aggregate	1,000,000
<i>Errors & Omissions Liability:</i>	
Occurrence/Aggregate	1,000,000
<i>Additional Umbrella Coverage:</i>	
Occurrence/Aggregate	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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 10 - RISK MANAGEMENT - (Continued)

For fiscal year 2011, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 20). 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.

The claims liability of \$3,916 reported at June 30, 2011 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>
2010	\$964	\$56,243	\$52,478	\$4,729
2011	4,729	54,516	55,329	3,916

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, 2011.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability, survivor 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, stand-alone 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - 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 School District 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 2011, 11.81 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$162,413, \$160,001, and \$84,646, respectively; 63.73 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to 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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

Funding Policy - For fiscal year ended June 30, 2011, 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, 2011, 2010, and 2009 were \$479,919, \$468,943, and \$430,382, respectively; 86.11 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009. \$66,642 representing the unpaid contribution for fiscal year 2011, is recorded as a liability in the statement of net assets.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40, SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$128,170, \$101,696, and \$179,752, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,463, \$1,332 and \$978, respectively, which equaled the required contributions each year.

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$36,917, \$36,073 and \$33,106, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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.

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 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. Effective January 1, 2011, the District offers three plans to choose from Option A \$652/\$1,754 single/family coverage, Option B \$591/\$1,590 single/family and Option C \$480/\$1,292 single/family 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 \$25,000 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 2011 were as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding at June 30, 2011</u>	<u>Amount Due in One Year</u>
<u>Governmental Activities:</u>							
Refunding Bonds	2006	5.125%	\$925,000	\$0	\$65,000	\$860,000	\$65,000
Premium on Bonds Issued			62,086	0	4,363	57,723	4,363
Compensated Absences			197,880	97,289	103,209	191,960	31,111
Total Governmental Activities Long-Term Liabilities			<u>\$1,184,966</u>	<u>\$97,289</u>	<u>\$172,572</u>	<u>\$1,109,683</u>	<u>\$100,474</u>

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

Refunding General Obligation Bonds - During fiscal year 2008, the District issued \$1,055,000 of general obligation bonds for the advance refunding of \$1,105,000 of the 1997 series bonds. The proceeds of the refunding were deposited in an irrevocable trust to provide for all future debt service payments. The payment to the escrow agent resulted in an in-substance defeasance of the 1997 Series bonds. As a result, the liability for the 1997 Series bonds was removed as a liability of the District, except for a final \$50,000 payment due by the District on December 1, 2007. The \$70,812 premium on the issuance of the refunding bonds and the \$64,868 of bond issuance costs are netted against this new debt and will be amortized over the life of this new debt, which has the same remaining life of the refunded debt of 14 years with a final maturity of December 1, 2021. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$165,036 and a reduction of \$159,092 in future debt service payments. The refunding bonds are retired through the Bond Retirement 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 \$5,269,777 with an unvoted debt margin of \$68,109 at June 30, 2011.

The annual requirements to retire the general obligation renovation bonds outstanding at June 30, 2011 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Refunding Bonds</u>	<u>Interest</u>	<u>Total</u>
2012	\$65,000	\$42,409	\$107,409
2013	70,000	38,950	108,950
2014	75,000	35,234	110,234
2015	75,000	31,391	106,391
2016	85,000	27,291	112,291
2017-2021	490,000	65,087	555,087
Total	<u>\$860,000</u>	<u>\$240,362</u>	<u>\$1,100,362</u>

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 15 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable:</i>				
Inventory	\$19,223	\$0	\$3,189	\$22,412
<i>Restricted:</i>				
Set Asides	52,866	0	0	52,866
<i>Special Revenues:</i>				
Athletics	0	0	15,697	15,697
Facilities Maintenance	0	0	62,062	62,062
Food Service	0	0	77,471	77,471
Local Grants	0	0	1,762	1,762
Federal Grants	0	0	1,949	1,949
Debt Services	0	434,981	0	434,981
Capital Projects	0	0	7,538	7,538
<i>Committed:</i>				
Eagle Express	0	0	3,414	3,414
Education Foundation	0	0	275,350	275,350
<i>Assigned:</i>				
Encumbrances	108,325	0	0	108,325
Public School Support	9,956	0	0	9,956
Uniform School Supplies	369	0	0	369
<i>Unassigned</i>	<u>229,180</u>	<u>0</u>	<u>(79,352)</u>	<u>149,828</u>
Total Fund Balances	<u>\$419,919</u>	<u>\$434,981</u>	<u>\$369,080</u>	<u>\$1,223,980</u>

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2011, 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>	\$32,654	\$0
<i>Nonmajor Special Revenue Funds:</i>		
District Managed Activities	0	804
Race To The Top Grant	0	3,850
Miscellaneous Federal Grants	0	28,000
Total Nonmajor Special Revenue	0	32,654
Total	<u>\$32,654</u>	<u>\$32,654</u>

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.

NOTE 17 - STATUTORY SET-ASIDES

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2011:

	<u>Textbooks and Instructional Materials</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-Aside Balance as of July 1, 2010	\$30,393	\$0	\$52,866	\$83,259
Current Year Set-Aside Requirement	141,007	141,007	0	282,014
Offset Credits	0	(175,296)	0	(175,296)
Qualifying Disbursements	(196,829)	(34,395)	0	(231,224)
Total	<u>(25,429)</u>	<u>(68,684)</u>	<u>52,866</u>	<u>(41,247)</u>
Set-Aside Balance as of June 30, 2011	<u>\$0</u>	<u>\$0</u>	<u>\$52,866</u>	
Total Restricted Assets				<u>\$52,866</u>

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.

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.

EASTERN LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 18 – ENCUMBRANCE COMMITMENTS

At June 30, 2011, the District had encumbrance commitments in the Governmental Funds as follows:

<u>Major Funds</u>	
General	\$108,325
<u>Nonmajor Funds</u>	
Food Service	2,219
Local Grants	829
Athletics and Bands	1,209
Title VI-B Grant	760
Miscellaneous Federal Grant	31,149
Total Nonmajor Funds	<u>36,166</u>
Total Encumbrances	<u>\$144,491</u>

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

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 28 participants consisting of 25 school districts and 3 educational service centers. 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. Athens-Meigs Educational Service Center of Athens County serves as the fiscal agent. 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 \$14,598 to SEOVEC in fiscal year 2011.

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 2011.

EASTERN LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 20 - 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), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 21 - 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, 2011.

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**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2010/2011	10.555	\$ 30,568	\$ 30,568
Cash Assistance:				
School Breakfast Program	2010/2011	10.553	73,839	73,839
National School Lunch Program	2010/2011	10.555	149,878	149,878
Cash Assistance Subtotal			<u>223,717</u>	<u>223,717</u>
Total Child Nutrition Cluster			<u>254,285</u>	<u>254,285</u>
Total U.S. Department of Agriculture			254,285	254,285
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1 Cluster:				
Title 1 Grants to Local Educational Agencies	2010	84.010	20,879	22,918
	2011		133,369	129,955
Total Title 1 Grants to Local Educational Agencies			<u>154,248</u>	<u>152,873</u>
ARRA - Title 1 Grants to Local Educational Agencies	2010	84.389	4,384	4,536
	2011		41,264	41,151
Total ARRA-Title 1 Grants to Local Educational Agencies			<u>45,648</u>	<u>45,687</u>
Total Title 1 Cluster			<u>199,896</u>	<u>198,560</u>
Special Education Cluster:				
Special Education - Grants to States	2010	84.027	19,204	20,487
	2011		144,256	143,532
			<u>163,460</u>	<u>164,019</u>
ARRA - Special Education - Grants to States	2010	84.391	4,980	19,878
	2011		43,496	42,680
Total ARRA-Special Education-Grants to States			<u>48,476</u>	<u>62,558</u>
Total Special Education Cluster			<u>211,936</u>	<u>226,577</u>
Fund for the Improvement of Education	2010	84.215	368	370
Twenty-First Century Community Learning Centers	2011	84.287	146,041	141,315
Education Technology State Grants	2011	84.318	54	
Improving Teacher Quality State Grants	2010	84.367	9,752	10,064
	2011		41,076	40,983
Total Improving Teacher Quality State Grants			<u>50,828</u>	<u>51,047</u>
ARRA - State Fiscal Stabilization Fund - Education State Grants	2010	84.394		25,380
	2011		417,578	417,578
Total ARRA - State Fiscal Stabilization Fund - Education State Grants			<u>417,578</u>	<u>442,958</u>
Race to the Top	2011	84.395	14,261	17,700
Total U.S. Department of Education			<u>1,040,962</u>	<u>1,078,527</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 1,295,247</u>	<u>\$ 1,332,812</u>

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at fair value. The District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities.



Dave Yost • 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 the Eastern Local School District, Meigs County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 7, 2012, wherein we noted that the District has adopted Governmental Accounting Standards Board Statement No. 54. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 7, 2012



Dave Yost • 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 the 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 could directly and materially affect the District's major federal program for the year ended June 30, 2011. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Finding 2011-01 in the accompanying Schedule of Findings, the District did not comply with requirements regarding cash management applicable to its State Fiscal Stabilization Fund – Education State Grant major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2011-01 to be a material weakness.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, others within the District, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 7, 2012

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

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 significant deficiencies in internal control 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?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	State Fiscal Stabilization Fund – Education State Grants CFDA #84.394
<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.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2011-001
CFDA Title and Number	ARRA- State Fiscal Stabilization Fund – Education State Grants; CFDA #84.394
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation and Material Weakness – Cash Management

34 C.F.R 80.20(b)(7) states in part that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

An ODE Policy and Guidance Memo, *SFSF Final Payments and Cash Management*, indicated the funding method for SFSF differs from other ARRA funds; however, cash management rules apply to the SFSF funds. Districts must expend the funds that are included in the foundation payments for the SFSF program in accordance with federal regulations.

The District received State Fiscal Stabilization Funds through the Ohio Department of Education Foundation Program. Foundation payments were sent automatically to the District on a bi-monthly basis. The District must spend advances within 30 days or by the end of the month, whichever occurs first.

The District did not expend State Fiscal Stabilization funds by the required 30 days for 21 of the 24 advances received in fiscal year 2011.

While imputed interest was not excessive, we note that failure to timely expend funds can result in excessive interest earned and questioned costs.

We recommend the District Treasurer review fund balances periodically to ensure that all federal receipts are expended within the required period.

Officials' Response and Corrective Action Plan:

Fund 532 or the Fiscal Stabilization Fund was used by the State of Ohio to fund school districts' Pathway to Students Success funding or PASS. Districts did not have control of the amount sent each month and the amounts varied throughout the year. Our district chose to use the funding for three existing all day, every day kindergarten teachers, an existing computer education instructor and existing elementary guidance position salaries and benefits. The initial allocation of funds would not cover all the salary and benefits for the elementary guidance position and these funds were paid out of General Fund. The allocation was increased and an adjustment was made in February to allocate all of the elementary guidance position salary and benefits cost to the Education Stabilization Fund. It was also at this time after reviewing the budget detail of the fund that none of the elementary guidance salary had been mapped to Fund 532.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation and Material Weakness – Cash Management (Continued)

Officials' Response and Corrective Action Plan:

The allocation again increased significantly in May. This increase exceeded the cost of the above mentioned salaries and benefits and open enrollment costs were adjusted from General Fund and used to spend the remaining allocation. If the allocation amount would have been known from the beginning of the fiscal year expenses would have more properly matched up with revenues. Even though the monthly financial summaries show the 532.9320 Fund had a cash balance; this cash balance would have been reduced had the expenditures matched the period. If the district would have been given the opportunity to draw the funding down like all other federal grants no cash balance or a minimal balance would have been maintained.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Eastern Local School District, Meigs County, Ohio (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

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

Dave Yost
Auditor of State

February 7, 2012

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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
MARCH 8, 2012**