



Mary Taylor, CPA
Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditure and Changes in Fund Balance – Budget and Actual General Fund.....	17
Statement of Fiduciary Net Assets.....	18
Notes to the Financial Statements	19
Federal Awards Expenditures Schedule.....	43
Notes to the Federal Awards Expenditures Schedule	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133.....	47
Schedule of Findings.....	49

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

April 13, 2009

Eastern Local School District, Brown County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

The discussion and analysis of Eastern Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2008 are as follows:

- Net assets of governmental activities increased \$2,093,033.
- General revenues accounted for \$13,423,960 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions, accounted for \$3,016,598, or 18% of total revenues of \$16,440,558.
- The School District had \$14,347,525 in expenses related to governmental activities; only \$3,016,598 of these expenses were offset by program specific charges for services and sales and operating grants and contributions.
- The School District has two major funds which are the General Fund and the Classroom Facilities Fund. All governmental funds had total revenues and other financing sources of \$34,099,634 and expenditures of \$22,647,076. The most significant change in fund balance was in the Classroom Facilities Fund.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Eastern Local School District, Brown County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Fund.

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

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

Eastern Local School District, Brown County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and Other Assets	\$ 38,322,672	\$ 42,504,094
Capital Assets	21,117,071	13,543,714
Total Assets	<u>59,439,743</u>	<u>56,047,808</u>
Liabilities		
Long-term Liabilities	10,212,870	10,502,095
Current and Other Liabilities	7,154,256	5,566,129
Total Liabilities	<u>17,367,126</u>	<u>16,068,224</u>
Net Assets		
Invested in Capital Assets, Net of Debt	11,627,566	10,571,124
Restricted	31,479,112	22,591,407
Unrestricted	(1,034,061)	6,817,053
Total Net Assets	<u>\$ 42,072,617</u>	<u>\$ 39,979,584</u>

Current and other assets decreased mainly due to a decrease in intergovernmental receivable related to the classroom facilities construction project. Current and other liabilities increased due to contracts and retainage payable also related to the classroom facilities school improvement project.

The change in capital assets is primarily due to the addition of \$7,893,533 in construction in progress, offset by depreciation expense.

Eastern Local School District, Brown County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2008 and 2007.

Table 2
Changes in Net Assets

	Governmental Activities 2008	Governmental Activities 2007
Revenues		
Program Revenues		
Charges for Services and Sales	\$ 926,264	\$ 857,055
Operating Grants and Contributions	2,090,334	2,072,944
Total Program Revenues	3,016,598	2,929,999
General Revenues		
Property Taxes	2,684,953	4,232,920
Payments in Lieu of Taxes	69,563	69,576
Grants and Entitlements, Not Restricted to Specific Programs	6,877,467	6,738,670
Grants and Entitlements, Restricted for Classroom Facilities	2,994,901	19,974,842
Investment Earnings	704,194	480,571
Gifts and Donations, Not Restricted to Specific Programs	17,022	6,648
Proceeds from Sale of Assets	1,210	-
Rent	-	13,894
Miscellaneous	74,650	85,998
Total General Revenues	13,423,960	31,603,119
Total Revenues	16,440,558	34,533,118
Program Expenses		
Instruction:		
Regular	5,533,134	5,482,677
Special	1,385,951	1,270,506
Vocational	225,670	214,140
Other	863,629	723,761
Support Services:		
Pupils	418,191	407,087
Instructional Staff	1,008,447	828,781
Board of Education	23,824	25,361
Administration	991,554	1,018,154
Fiscal	444,774	397,092
Business	2,576	5,012
Operation and Maintenance of Plant	1,115,729	956,471
Pupil Transportation	1,014,871	900,188
Central	37,036	38,858
Operation of Non-Instructional Services	594,254	522,670
Extracurricular Activities	197,153	182,648
Interest and Fiscal Charges	490,732	564,580
Total Expenses	14,347,525	13,537,986
Increase in Net Assets	2,093,033	20,995,132
Net Assets, Beginning of Year	39,979,584	18,984,452
Net Assets, End of Year	\$ 42,072,617	\$ 39,979,584

Eastern Local School District, Brown County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Total revenue decreased \$18,093,560. As compared to the prior year, property tax revenue decreased \$1,547,967 due a decrease in delinquent tax collections. Grants and entitlements, restricted for classroom facilities decreased \$16,979,941 since the monies received from the Ohio School Facilities Commission for the classroom facilities school improvement project were less in 2008.

Total expenditures increased \$809,539. Special instruction increased \$115,445 primarily due to increases in salaries and benefits. Other instruction increased \$139,868 primarily due to an increase in open enrollment tuition paid through the State Foundation. Instructional staff support services increased \$179,666 primarily due to increases in salaries and benefits. Operation and maintenance of plant increased \$159,258 primarily due to increases in salaries and benefits and increased fuel and heating costs. Pupil transportation increased \$114,683 primarily due to increases in salaries and benefits and gasoline costs.

Governmental Activities

General revenues of \$13,423,960 provide 82% of total revenues. Of this total, restricted grants and entitlements make up 18%, while property taxes make up 16% and unrestricted grants and entitlements make up 42% of total general revenues.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 39% of governmental program expenses with Special Instruction comprising 10% of governmental expenses.

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

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
Instruction	\$ 8,008,384	\$ 6,762,341	\$ 7,691,084	\$ 6,339,472
Support Services	5,057,002	4,208,565	4,577,004	3,593,832
Operation of Non-Instructional Services	594,254	(94,962)	522,670	27,362
Extracurricular Activities	197,153	60,877	182,648	82,741
Interest and Fiscal Charges	490,732	394,106	564,580	564,580
Total	<u>\$ 14,347,525</u>	<u>\$ 11,330,927</u>	<u>\$ 13,537,986</u>	<u>\$ 10,607,987</u>

THE SCHOOL DISTRICT FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had \$11,121,058 in revenues and other financing sources and \$11,751,721 in expenditures resulting in a decrease in fund balance of \$630,663. The decrease was primarily due to increases in expenditures for regular instruction, other instruction, instructional staff support services, operation and maintenance of plant and pupil transportation which were partially offset by increases in intergovernmental and tuition and fees revenues, as well as other less significant variances. The Classroom Facilities Fund had \$20,362,902 in revenues and other financing sources and \$7,937,540 in expenditures resulting in a fund balance increase of \$12,425,362. This increase was primarily due to monies received from the Ohio School Facilities Commission for the School District's classroom facilities school improvement project that have yet to be expended.

Eastern Local School District, Brown County

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of fiscal year 2008, the School District amended its General Fund budget. These amendments increased estimated total revenues and other financing sources by \$5,482 and increased estimated total expenditures and other financing uses by \$200,000. Actual total revenues and other financing sources were \$134,557 above the final budget of \$11,045,344. This was primarily due to tuition and fees revenue and intergovernmental revenue which were higher than anticipated. These increases were partially offset by property tax revenue which was lower than anticipated.

Actual total expenditures and other financing uses were \$42,847 below the final budget of \$11,743,908. The General fund's ending unobligated cash balance was \$516,580; \$177,404 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the School District had \$21,117,071 invested in its capital assets. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2008 balances compared to 2007.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2008	2007
Land	\$ 592,510	\$ 592,510
Construction in Progress	10,281,846	2,388,313
Buildings and Improvements	9,242,161	9,500,346
Furniture and Equipment	637,827	720,538
Vehicles	362,727	342,007
Totals	<u>\$ 21,117,071</u>	<u>\$ 13,543,714</u>

Changes in capital assets from the prior year resulted from addition of \$7,893,533 in construction in progress which was partially offset by depreciation.

Debt

At June 30, 2008, the School District had a general obligation bonds outstanding of \$9,489,505. The bonds and notes were issued for the purpose of constructing, remodeling, reconstructing and adding to school buildings. For additional information on debt, see Note 11 to the basic financial statements.

Eastern Local School District, Brown County

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kevin Kendall, Treasurer at Eastern Local School District, P.O. Box 500, Sardinia, Ohio 45171.

This page intentionally left blank.

Eastern Local School District, Brown County
Statement of Net Assets
June 30, 2008

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 24,620,842
Accounts Receivable	10,916
Intergovernmental Receivable	8,957,118
Taxes Receivable	4,361,208
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	269,963
Unamortized Financing Costs	102,625
Non-Depreciable Capital Assets	10,874,356
Depreciable Capital Assets, net	10,242,715
<i>Total Assets</i>	59,439,743
LIABILITIES:	
Current Liabilities:	
Accounts Payable	5,554
Accrued Wages and Benefits	1,355,526
Contracts Payable	1,710,216
Retainage Payable	180,582
Intergovernmental Payable	305,907
Accrued Interest Payable	37,027
Matured Compensated Absences Payable	70,799
Unearned Revenue	3,488,645
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	404,147
Due in More Than One Year	9,808,723
<i>Total Liabilities</i>	17,367,126
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	11,627,566
Restricted for Debt Service	992,125
Restricted for Capital Outlay	30,099,616
Restricted for Other Purposes	387,371
Unrestricted	(1,034,061)
<i>Total Net Assets</i>	\$ 42,072,617

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

Eastern Local School District, Brown County
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	<u>Program Revenues</u>			Net(Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction:				
Regular	\$ 5,533,134	\$ 253,930	\$ 137,452	\$ (5,141,752)
Special	1,385,951	44,555	746,485	(594,911)
Vocational	225,670	10,718	5,982	(208,970)
Other	863,629	43,430	3,491	(816,708)
Support Services:				
Pupils	418,191	19,136	28,554	(370,501)
Instructional Staff	1,008,447	41,862	130,765	(835,820)
Board of Education	23,824	1,205	-	(22,619)
Administration	991,554	49,636	6,022	(935,896)
Fiscal	444,774	21,057	6,083	(417,634)
Business	2,576	130	-	(2,446)
Operation and Maintenance of Plant	1,115,729	54,503	24,327	(1,036,899)
Pupil Transportation	1,014,871	46,777	416,507	(551,587)
Central	37,036	1,873	-	(35,163)
Operation of Non-Instructional Services	594,254	267,516	421,700	94,962
Extracurricular Activities	197,153	69,936	66,340	(60,877)
Interest and Fiscal Charges	490,732	-	96,626	(394,106)
Total Governmental Activities	<u>\$ 14,347,525</u>	<u>\$ 926,264</u>	<u>\$ 2,090,334</u>	<u>(11,330,927)</u>
General Revenues:				
Property Taxes Levied for:				
General Purposes				2,071,927
Building Maintenance				39,320
Debt Service				520,793
Permanent Improvement				52,913
Grants and Entitlements not Restricted to Specific Programs				6,877,467
Gifts and Donations not Restricted to Specific Programs				17,022
Grants and Entitlements Restricted for Classroom Facilities				2,994,901
Investment Earnings				704,194
Payments in Lieu of Taxes				69,563
Gain on Sale of Capital Assets				1,210
Miscellaneous				74,650
Total General Revenues				<u>13,423,960</u>
Change in Net Assets				2,093,033
Net Assets Beginning of Year				<u>39,979,584</u>
Net Assets End of Year				<u>\$ 42,072,617</u>

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

Eastern Local School District, Brown County
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 454,206	\$ 20,487,976	\$ 3,678,660	\$ 24,620,842
Accounts Receivable	9,942	-	974	10,916
Intergovernmental Receivable	4,897	8,835,215	117,006	8,957,118
Taxes Receivable	3,404,463	-	956,745	4,361,208
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	89,381	180,582	-	269,963
<i>Total Assets</i>	<u>3,962,889</u>	<u>29,503,773</u>	<u>4,753,385</u>	<u>38,220,047</u>
LIABILITIES:				
Accounts Payable	5,016	-	538	5,554
Accrued Wages and Benefits	1,181,632	-	173,894	1,355,526
Contracts Payable	-	1,710,216	-	1,710,216
Retainage Payable	-	180,582	-	180,582
Intergovernmental Payable	283,028	-	22,879	305,907
Matured Compensated Absences Payable	66,706	-	4,093	70,799
Deferred Revenue	2,912,111	8,835,215	820,925	12,568,251
<i>Total Liabilities</i>	<u>4,448,493</u>	<u>10,726,013</u>	<u>1,022,329</u>	<u>16,196,835</u>
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	18,480	24,459	19,421	62,360
Reserved for Property Taxes	492,352	-	153,525	645,877
Reserved for Capital Improvements	52,622	-	-	52,622
Reserved for Budget Stabilization	36,759	-	-	36,759
Unreserved, Undesignated, Reported in:				
General Fund	(1,085,817)	-	-	(1,085,817)
Special Revenue Funds	-	-	274,449	274,449
Debt Service Funds	-	-	815,999	815,999
Capital Projects Funds	-	18,753,301	2,467,662	21,220,963
<i>Total Fund Balances</i>	<u>(485,604)</u>	<u>18,777,760</u>	<u>3,731,056</u>	<u>22,023,212</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,962,889</u>	<u>\$ 29,503,773</u>	<u>\$ 4,753,385</u>	<u>\$ 38,220,047</u>

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

Eastern Local School District, Brown County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total Governmental Fund Balances \$ 22,023,212

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. 21,117,071

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

Unamortized Financing Costs	102,625	
Taxes	226,686	
Intergovernmental	8,852,920	
Total	9,182,231	9,182,231

Long-Term Liabilities, including bonds, unamortized bond premium, accrued interest, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(723,365)	
General Obligation Bonds	(9,315,000)	
Accrued Interest Payable	(37,027)	
Unamortized Bond Premium	(174,505)	
Total	(10,249,897)	(10,249,897)

Net Assets of Governmental Activities \$ 42,072,617

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

Eastern Local School District, Brown County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property Taxes	\$ 2,638,023	\$ -	\$ 789,365	\$ 3,427,388
Intergovernmental	7,663,422	19,413,994	1,323,530	28,400,946
Interest	104,254	470,510	129,430	704,194
Tuition and Fees	582,503	-	-	582,503
Rent	12,372	-	-	12,372
Extracurricular Activities	-	-	64,453	64,453
Gifts and Donations	16,447	-	575	17,022
Customer Sales and Services	-	-	266,935	266,935
Payments in Lieu of Taxes	55,015	-	14,548	69,563
Miscellaneous	47,812	-	26,838	74,650
<i>Total Revenues</i>	<u>11,119,848</u>	<u>19,884,504</u>	<u>2,615,674</u>	<u>33,620,026</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	5,035,891	-	224,854	5,260,745
Special	878,127	-	497,866	1,375,993
Vocational	211,987	-	7,999	219,986
Other	858,961	-	4,668	863,629
Support Services:				
Pupils	377,333	-	38,180	415,513
Instructional Staff	830,960	-	174,487	1,005,447
Board of Education	23,824	-	-	23,824
Administration	967,247	-	5,117	972,364
Fiscal	421,714	-	26,708	448,422
Business	2,576	-	-	2,576
Operation and Maintenance of Plant	1,056,653	-	32,528	1,089,181
Pupil Transportation	921,976	-	3,552	925,528
Central	37,036	-	-	37,036
Operation of Non-Instructional Services	11,489	-	562,738	574,227
Extracurricular Activities	108,450	-	88,703	197,153
Capital Outlay	7,497	7,937,540	45,229	7,990,266
Debt Service:				
Principal	-	-	310,000	310,000
Interest	-	-	456,788	456,788
<i>Total Expenditures</i>	<u>11,751,721</u>	<u>7,937,540</u>	<u>2,479,417</u>	<u>22,168,678</u>
Excess of Revenues Over (Under) Expenditures	(631,873)	11,946,964	136,257	11,451,348
<i>Other Financing Sources and Uses:</i>				
Transfers In	-	478,398	-	478,398
Proceeds from Sale of Capital Assets	1,210	-	-	1,210
Transfers Out	-	-	(478,398)	(478,398)
<i>Total Other Financing Sources and Uses</i>	<u>1,210</u>	<u>478,398</u>	<u>(478,398)</u>	<u>1,210</u>
<i>Net Change in Fund Balances</i>	<u>(630,663)</u>	<u>12,425,362</u>	<u>(342,141)</u>	<u>11,452,558</u>
<i>Fund Balances at Beginning of Year</i>	<u>145,059</u>	<u>6,352,398</u>	<u>4,073,197</u>	<u>10,570,654</u>
<i>Fund Balances at End of Year</i>	<u>\$ (485,604)</u>	<u>\$ 18,777,760</u>	<u>\$ 3,731,056</u>	<u>\$ 22,023,212</u>

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

Eastern Local School District, Brown County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 11,452,558

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

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

Capital Asset Additions	8,026,902	
Current Year Depreciation	(453,545)	
Total	7,573,357	7,573,357

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

Gain on Disposal of Capital Assets	1,210	
Proceeds from Sale of Capital Assets	(1,210)	
Total	-	-

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

Taxes	(742,435)	
Intergovernmental	(16,438,243)	
Total	(17,180,678)	(17,180,678)

The amortization of premium from the sale of bonds is recorded as a reduction of liability in the statement of net assets, but does not result in an expenditure in the governmental funds.

7,485

Repayments of long-term bond anticipation notes and bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

310,000

The amortization of debt issuance costs are reported in the statement of activities, but are not reported as expenditures in the governmental funds.

(4,402)

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

Increase in Compensated Absences	(28,260)	
Increase in Accrued Interest Payable	(37,027)	
Total	(65,287)	(65,287)

Net Change in Net Assets of Governmental Activities **\$ 2,093,033**

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

Eastern Local School District, Brown County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Revenues and Other Financing Sources	\$ 11,039,862	\$ 11,045,344	\$ 11,179,901	\$ 134,557
Total Expenditures and Other Financing Uses	11,586,755	11,786,755	11,743,908	42,847
Net Change in Fund Balance	(546,893)	(741,411)	(564,007)	177,404
Fund Balance at Beginning of Year	993,871	993,871	993,871	-
Prior Year Encumbrances Appropriated	86,716	86,716	86,716	-
Fund Balance at End of Year	<u>\$ 533,694</u>	<u>\$ 339,176</u>	<u>\$ 516,580</u>	<u>\$ 177,404</u>

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

Eastern Local School District, Brown County
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$ 18,883</u></u>
LIABILITIES:	
Undistributed Monies	<u><u>\$ 18,883</u></u>

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 75 square miles. It is located in Brown County and includes the Villages of Macon and Russellville and various townships within the County. It is staffed by 69 non-certified and 97 teaching personnel and administrative employees providing education to 1,466 students and other community members.

Reporting Entity

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

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

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

The School District is associated with four organizations, two of which are defined as jointly governed organizations, two as insurance purchasing pools of which one is also a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), Hopewell Special Education Regional Resource Center (Hopewell), and the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP). The Brown County Schools Benefits Consortium is made up of a public entity shared risk pool and an insurance purchasing pool. These organizations are presented in Notes 12, 13 and 14 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Local School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

Governmental Funds

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

General Fund

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

Classroom Facilities Fund

The Classroom Facilities Fund is a fund provided to account for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

Fiduciary Funds

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

Basis of Presentation

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

Basis of Accounting

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

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues – Exchange and Non-exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 5) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred/Unearned Revenue

Deferred/Unearned 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, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred/unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

Budgetary Process

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Process (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008.

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

Cash and Cash Equivalents

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

During fiscal year 2008, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Money Market Savings and repurchase agreements. Repurchase agreements are reported at cost. Federal National Mortgage Association Bonds and Federal Home Loan Bank Bonds are reported at market value.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2008.

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, Classroom Facilities capital projects fund and all other governmental funds during fiscal year 2008 amounted to \$104,254, \$470,510 and \$129,430, respectively.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents and are reported as "Equity in Pooled Cash and Cash Equivalents" in the accompanying financial statements.

Capital Assets and Depreciation

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Compensated Absences

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

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

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

Accrued Liabilities and Long-term Obligations

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

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

Net Assets

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

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide statement of net assets reports \$31,479,112 restricted net assets, none of which are restricted by enabling legislation.

Interfund Activity

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

Fund Balance Reserves

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

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. See Note 15 for additional information regarding restricted net assets.

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by statute to be set-aside by the School District for budget stabilization. See Note 15 for additional information regarding set-asides.

Restricted assets in the Classroom Facilities Fund represent cash and cash equivalents held for contractor retainage.

Estimates

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$630,663)
Adjustments:	
Revenue Accruals	58,843
Expenditure Accruals	30,537
Encumbrances	<u>(22,724)</u>
Budget Basis	<u>(\$564,007)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of the purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

Deposits: Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual amounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2008, the District's bank balance of \$476,177 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Investments: As of June 30, 2008, the School District had the following investments and maturities:

Description:	Fair Value	Investment Maturities (in years)		
		Less than 1	1-2	3-5
STAR Ohio	\$ 646,411	\$ 646,411	\$ -	\$ -
Repurchase Agreement	15,639,227	15,639,227	-	-
Fifth Third Institutional Government				
Money Market	4,514,482	4,514,482	-	-
Federal Home Loan Bank Bonds	3,051,033	-	-	3,051,033
Federal National Mortgage Association Bonds	755,625	-	-	755,625
Total Investments	<u>\$ 24,606,778</u>	<u>\$ 20,800,120</u>	<u>\$ -</u>	<u>\$ 3,806,658</u>

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio, repurchase agreements, Federal Home Loan Bank Consolidated Bonds, and Federal National Mortgage Association Bonds. Investments in STAR Ohio were rated AAAM by Standard & Poor's. The Fifth Third Institutional Government Money Market was rated AAAM by Standard & Poor's and Aaa by Moody's. The Federal Home Loan Bank Bonds are rated AAA by Standard & Poor's and Aaa by Moody's. Investments in Federal National Mortgage Association Bonds were rated AAA by Standard & Poor's and Aaa by Moody's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy allows investments as authorized in the Ohio Revised Code. The District has invested 12.4% of its investments in Federal Home Loan Bank Consolidated Bonds, 18.3% in Fifth Third Institutional Government Money Market, 3.1% in Federal National Mortgage Association Bonds, 2.6% in STAR Ohio, and 63.6% in a repurchase agreement.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District. Of the District's investment in repurchase agreements and money markets, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2008 for real and public utility property taxes represents collections of calendar 2007 taxes. Property tax payments received during calendar 2008 for tangible personal property (other than public utility property) are for calendar 2007 taxes.

2008 real property taxes are levied after April 1, 2008, on the assessed value as of January 1, 2008, the lien date.

Assessed values are established by State law at thirty-five percent of appraised market value. First half 2008 real property taxes are collected in and intended to finance fiscal year 2009.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2008 public utility property taxes became a lien December 31, 2007, are levied after April 1, 2008 and are collected in 2009 with real property taxes.

2008 tangible personal property taxes are levied after April 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments are twenty-five percent of true value.

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

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

Ohio House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed at the level of calendar year 2004 assessed values for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The assessed values upon which fiscal year 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 135,093,450	94.21%	\$137,925,270	94.49%
Public Utility	6,835,480	4.77%	7,131,680	4.89%
Tangible Personal Property	1,461,290	1.02%	915,940	0.63%
Total Assessed Value	<u>\$ 143,390,220</u>	<u>100.00%</u>	<u>\$145,972,890</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 40.20		\$ 40.20	

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 5 - PROPERTY TAXES (Continued)

The School District receives property taxes from Adams, Brown and Highland Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008 are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2008, was \$492,352 in the General Fund and \$153,525 in all other governmental funds.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2008, consisted of property taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds.

A summary of the intergovernmental receivables follows at June 30, 2008:

	<u>Amounts</u>
Major Funds:	
General	\$ 4,897
Classroom Facilities	8,835,215
Total Major Funds	<u>8,840,112</u>
Non-Major Funds:	
Special Education, IDEA Part B	37,452
Title I	58,904
Improving Teacher Quality, Title II-A	13,732
Alternative School Grant	5,603
Miscellaneous Federal Grants	1,315
Total Non-Major Funds	<u>117,006</u>
Total Intergovernmental Receivables	<u><u>\$ 8,957,118</u></u>

NOTE 7 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School District contracted with Ohio School Plan for general liability insurance with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate. Property is protected by the Ohio School Plan and holds a \$1,000 deductible. The School District's vehicles are covered by the Ohio School Plan and hold a \$1,000 deductible for both comprehensive and collision with a \$3,000,000 limit on any accident. Vehicles are also covered under the commercial umbrella policy. Violence coverage is provided by the Ohio School Plan with a \$250,000 single occurrence limit and a \$500,000 aggregate.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 7 - RISK MANAGEMENT (Continued)

For fiscal year 2008, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity risk pool (Note 14) consisting of nine districts. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions.

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and 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 per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, at www.ohsers.org, under *Forms and Publications*.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The rates allocated to fund pension obligations for the fiscal years ended June 30, 2008, 2007 and 2006 were 9.82%, 10.68% and 10.58%, respectively. The School District's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$180,341, \$200,910, and \$227,785, respectively; 48% has been contributed for fiscal year 2008 and 100% for the fiscal years 2007 and 2006.

State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(continued)

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(continued)

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

A 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal years ended June 30, 2008, 2007, and 2006, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$692,922, \$684,335, and \$741,655, respectively; 83% has been contributed for the fiscal year 2008 and 100% for the fiscal year 2007 and 2006.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

B. 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, 2008, no members of the Board of Education had elected Social Security.

C. Postemployment Benefits

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan, which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll free (888) 227-7877.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(continued)

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. For the School District, these amounts equaled \$52,758, \$53,398, and \$54,543 for fiscal years 2008, 2007, and 2006, respectively.

School Employees Retirement System

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Code 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 2008 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2008, 2007, and 2006, the actuarially required allocations were 0.66%, 0.68%, and 0.78%, respectively. For the School District, contributions for the fiscal years ended June 30, 2008, 2007, and 2006 were \$12,510, \$12,661, and \$12,403, respectively, which equaled the required contributions for those years.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, 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 Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2008, 2007, and 2006, the health care allocations were 4.18%, 3.32%, and 3.42%, respectively. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation (the latest available), was 11.50% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For the School District, the amounts contributed to fund health care benefits, including the surcharge, during the 2008, 2007, and 2006 fiscal years equaled \$93,684, \$95,548, and \$97,037, respectively.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(continued)

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% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

The SERS 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 upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS website at www.ohsers.org under *Forms and Publications*.

NOTE 9 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 days of sick leave for each year under contract. Sick leave may be accumulated up to a maximum of 220 days for teachers and classified personnel. Administrators with a 242 day contract may accumulate up to a maximum of 286 days, with a 222 day contract may accumulate up to a maximum of 264 days, and with a 202 day contract may accumulate up to 242 days. Upon retirement, payment is made for one-fourth of the maximum allowable accumulation for teachers, administrators, and classified personnel.

B. Other Employee Benefits

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

C. Early Retirement Incentive

The School District offers an Early Retirement Incentive (Super-Severance) program to all certified employees. The employee must retire in the first year they become eligible. For these employees, they must give written notice to the Superintendent by April 1st of the year he/she becomes eligible for "full retirement". For fiscal year 2008, no employees took advantage of this incentive to receive the \$10,000 bonus.

During fiscal year 2006, the board approved a new incentive which states that if the employee retires, the board will give them a five year contract and continue to pay all of their benefits. The employee will be placed on step three of their salary schedule. They will be frozen at step three. The employee is eligible for base increases, but they are not eligible for step increases or bonuses such as the personal day or attendance bonus. At June 30, 2008, no employees were participating in this program.

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 10 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2008, was as follows:

	Ending Balance 6/30/2007	Additions	Deletions	Ending Balance 6/30/2008
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 592,510	\$ -	\$ -	\$ 592,510
Construction in Progress	2,388,313	7,893,533	-	10,281,846
Total Capital Assets, Not Being Depreciated	2,980,823	7,893,533	-	10,874,356
Capital Assets Being Depreciated				
Buildings and Improvements	12,883,861	-	-	12,883,861
Furniture and Equipment	2,341,492	26,279	(4,607)	2,363,164
Vehicles	1,372,698	107,090	-	1,479,788
Total Capital Assets Being Depreciated	16,598,051	133,369	(4,607)	16,726,813
Less: Accumulated Depreciation:				
Buildings and Improvements	(3,383,515)	(258,185)	-	(3,641,700)
Furniture and Equipment	(1,620,954)	(108,990)	4,607	(1,725,337)
Vehicles	(1,030,691)	(86,370)	-	(1,117,061)
Total Accumulated Depreciation	(6,035,160)	(453,545)	4,607	(6,484,098)
Total Capital Assets Being Depreciated, Net	10,562,891	(320,176)	-	10,242,715
Governmental Capital Assets, Net	\$ 13,543,714	\$ 7,573,357	\$ -	\$ 21,117,071

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$322,746
Special	4,164
Vocational	5,684
Support Services:	
Pupils	1,544
Instructional Staff	5,666
Administration	1,806
Fiscal	1,606
Operation and Maintenance of Plant	5,258
Pupil Transportation	86,163
Operation of Non-Instructional Services	18,908
Total Depreciation Expense	\$453,545

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS

The change in the School District's long-term obligations during the fiscal year 2008 were as follows:

	Principal Outstanding 06/30/07	Additions	Deductions	Principal Outstanding 06/30/08	Due Within One Year
School Construction/Remodeling Bonds 1995 6.25%	\$ 2,460,000	\$ -	\$ 140,000	\$ 2,320,000	\$ 140,000
Classroom Facilities General Obligation Bonds 2006 4% - 4.75% Premium	7,165,000 181,990	- -	170,000 7,485	6,995,000 174,505	170,000 7,485
Compensated Absences	695,105	723,365	695,105	723,365	86,662
Total Governmental Activities	\$ 10,502,095	\$ 723,365	\$ 1,012,590	\$ 10,212,870	\$ 404,147

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

On October 23, 2006, the School District issued \$7,165,000 in general obligation classroom facilities bonds for the purpose of retiring the \$7,165,000 bond anticipation notes which were used for the purpose of school improvement. The bonds consisted of \$3,100,000 in serial bonds and \$4,065,000 in term bonds. The serial bonds were issued for a fourteen year period with final maturity in 2021. The term bonds were issued with maturities beginning in 2020 and a final maturity in 2031. The bonds will be retired from the bond service fund.

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

The School District's overall legal debt margin was \$3,822,560 with an unvoted debt margin of \$145,973 at June 30, 2008. Principal and interest requirements to retire general obligation debt at June 30, 2008 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 325,000	\$ 440,826	\$ 765,826
2010	345,000	423,937	768,937
2011	360,000	406,126	766,126
2012	410,000	386,449	796,449
2013	425,000	364,857	789,857
2014-2018	2,570,000	1,447,744	4,017,744
2019-2023	1,415,000	958,675	2,373,675
2024-2028	1,745,000	619,531	2,364,531
2029-2032	1,720,000	168,150	1,888,150
Totals	\$ 9,315,000	\$ 5,216,295	\$ 14,531,295

Eastern Local School District, Brown County

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$105,839 for all services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career and Technology Center, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

NOTE 13 - INSURANCE PURCHASING POOL

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

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 14 - PUBLIC ENTITY SHARED RISK POOL

Brown County Schools Benefits Consortium

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) and two Highland County school districts (Lynchburg-Clay and Bright Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Humana to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, Dental Care Plus. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 15 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year ended June 30, 2008, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of			
June 30, 2007	\$ -	\$ 88,258	\$ 36,759
Current Year Set-aside Requirement	226,419	226,419	-
Current Year Offsets	-	(121,122)	-
Prior Year Carryforward	(44,346)	-	-
Qualifying Disbursements	<u>(196,207)</u>	<u>(140,933)</u>	<u>-</u>
Set-aside Balance Carried Forward to Future Years	<u>\$ (14,134)</u>	<u>\$ 52,622</u>	<u>\$ 36,759</u>
Set-aside Reserve Balance as of			
June 30, 2008		<u>\$ 52,622</u>	<u>\$ 36,759</u>

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

The total reserve balance for the set-asides at the end of the fiscal year was \$89,381.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

(Continued)

NOTE 16 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

NOTE 17 – ACCOUNTABILITY

At June 30, 2007, the General Fund and Special Education – IDEA Part B, Title I, and Title II-A Special Revenue Funds had fund balance deficits of \$485,604, \$10,849, \$3,237, and \$877 respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 18 – CONTRACT COMMITMENTS

As of June 30, 2008, the School District had significant contractual purchase commitments for the construction of new school facilities as follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/08</u>
AC Electrical Systems, Inc.	\$ 1,187,670	\$ 28,400	\$ 1,159,270
Dalmation Fire, Inc.	85,200	-	85,200
ESI, Inc.	3,826,700	-	3,826,700
Emerald Fire Protection	105,490	84,609	20,881
Feldkamp Enterprises, Inc.	5,964,502	401,482	5,563,020
G/C Contracting Corp.	4,281,193	1,079,007	3,202,186
Kelchner, Inc.	1,733,485	1,690,772	42,713
STAN and Associates, Inc.	86,935	15,522	71,413
Steed Hammond Paul	2,096,530	1,800,610	295,920
Stephen Gross & Sons, Inc.	9,601,600	813,809	8,787,791
Turner/Dag	1,743,957	1,200,903	543,054
Total	<u>\$ 30,713,262</u>	<u>\$ 7,115,114</u>	<u>\$ 23,598,148</u>

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008
(Continued)

NOTE 19 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the period ended June 30, 2008 were as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
Major Fund:		
Classroom Facilities Fund	\$ -	\$ 478,398
Non-Major Fund:		
Capital Projects Fund	<u>478,398</u>	<u>-</u>
Total	<u>\$ 478,398</u>	<u>\$ 478,398</u>

A transfer was made to move funds from the Capital Projects Fund to the Classroom Facilities Fund. This transfer represents the School District's local share increase due to an amendment increasing the cost of the School District's construction project.

NOTE 20 – SUBSEQUENT EVENTS

On October 6, 2008, during a special meeting, the board reviewed information from Ohio School Facilities Commission (OSFC) regarding an option to provide a \$500,000 credit to the District's 14% local share of the construction project related to the additional work involved in demolition of the remainder of the high school, except for the gym and the building of a new building to be attached to the existing gym, because of the deficiencies in the original construction and design related to the 1997 high school building. This option was accepted by the board; however, formal approval from OFSC and a revised budget of the total project has not been received.

On December 15, 2008, the board approved bids on bid package #7 for Loose Furnishings. The bid package #7a (academic furniture) was awarded to Continental Office Furniture for \$247,742 and bid package #7b (office furniture) was awarded to Martin Public Seating for \$292,107.98, subject to the approval of the Ohio School Facilities Commission.

This page intentionally left blank.

EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Distribution)	N/A	10.550		\$42,743	\$0	\$42,743
Cash Assistance:						
School Breakfast Program	N/A	10.553	49,124		49,124	
National School Lunch Program	N/A	10.555	192,830		192,830	
Total Child Nutrition Cluster			241,954	42,743	241,954	42,743
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title 1 Grants to Local Educational Agencies	N/A	84.01	360,484		361,092	
Special Education Grants to States	N/A	84.027	333,809		334,730	
Safe and Drug Free Schools and Communities - State Grants	N/A	84.186	11,226		10,868	
Innovative Educational Program Strategies Grant	N/A	84.298	3,686		2,810	
Technology Literacy Challenge Grant	N/A	84.318	5,801		5,664	
Improving Teach Quality State Grants	N/A	84.367	113,986		110,707	
Learn and Serve America Grant	N/A	94.004	3,000		2,859	
Total U.S. Department of Education			831,992	0	828,730	0
Totals			<u>\$1,073,946</u>	<u>\$42,743</u>	<u>\$1,070,684</u>	<u>\$42,743</u>

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

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Mary Taylor, CPA

Auditor of State

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

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 13, 2009. 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 opinion 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 control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

We noted certain matters that we reported to the District's management in a separate letter dated April 13, 2009

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 did note a certain noncompliance matter that we reported to the District's management in a separate letter dated April 13, 2009.

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



Mary Taylor, CPA
Auditor of State

April 13, 2009



Mary Taylor, CPA

Auditor of State

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

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

Compliance

We have audited the compliance of Eastern Local School District, Brown County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2008. 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 each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year June 30, 2008.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



Mary Taylor, CPA
Auditor of State

April 13, 2009

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other 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 weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I – 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes.

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 7, 2009**