

Eastern Local School District

Pike County, Ohio

Single Audit

July 1, 2009 through June 30, 2010

Year Audited Under GAGAS: 2010



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Board of Education
Eastern Local School District
1170 Tile Mill Road
Beaver, Ohio 45613

We have reviewed the *Independent Auditor's Report* of the Eastern Local School District, Pike County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Eastern Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 20, 2010

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Eastern Local School District
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For the Year Ended June 30, 2010

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Independent Auditor's Report

Board of Education
Eastern Local School District
1170 Tile Mill Road
Beaver, Ohio 45613

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District (the School District), Pike County, Ohio, as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

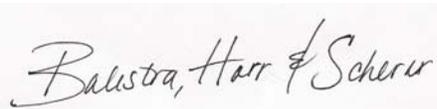
Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Pike County, as of June 30, 2010, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is required by the 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 Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 12, 2010

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

As management of the Eastern Local School District, we offer the readers of the District's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Net assets of governmental activities increased \$385,995.

General cash receipts accounted for \$6,884,255 or 72 percent of all total revenues. Program specific cash receipts in the form of charges for services and sales, grants, and contributions accounted for \$2,649,914 or 28 percent of total cash receipts of \$9,534,169.

The District had \$9,148,174 in expenses related to governmental activities; only \$2,649,914 of these cash disbursements were offset by program specific charges for services and sales, grants, and contributions. General cash receipts (primarily grants, entitlements, and property taxes) of \$6,884,255 were adequate to provide for these programs.

USING THE BASIC FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

REPORT COMPONENTS

The *Statement of Net Assets* and *Statement of Activities* provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specific purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

BASIS OF ACCOUNTING

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during 2010, within the limitations of the cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other non-financial factors as well such as the District's property tax base, the condition of the District's capital assets and infrastructure, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the District has one type of activity: governmental.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Fund.

Governmental Funds Most of the 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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the statement of net assets and statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The District's proprietary fund is an internal service fund used to account for insurance services provided to other departments or agencies of the District, or to other government units, on a cost-reimbursement basis.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Fiduciary Funds

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

THE DISTRICT AS A WHOLE

Recall that the statement of net assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for 2010 and 2009.

(Table 1)
 Net Assets

| | Governmental Activities | |
|--------------------------|-------------------------|--------------|
| | 2010 | 2009 |
| Assets | | |
| Current and Other Assets | \$ 2,660,764 | \$ 2,274,769 |
| Total Assets | 2,660,764 | 2,274,769 |
| Net Assets | | |
| Restricted | 988,640 | 969,329 |
| Unrestricted | 1,672,124 | 1,305,440 |
| Total Net Assets | \$ 2,660,764 | \$ 2,274,769 |

Total net assets increased \$385,995 from 2009 to 2010 due to cash receipts in excess of cash disbursements.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 2 shows the highlights of the District's cash receipts and cash disbursements. These two main components are subtracted to yield the change in net assets.

Cash Receipts is further divided into two major components: Program Cash Receipts and General Cash Receipts. Program Cash Receipts are defined as charges for services and sales, capital and operating grants, and contributions. General Cash Receipts include property taxes, unrestricted grants, such as State foundation support, unrestricted contributions, investment earnings and miscellaneous receipts.

Cash Disbursements are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

(Table 2)
 Changes in Net Assets

| | Governmental Activities | |
|--|-------------------------|------------|
| | 2010 | 2009 |
| Cash Receipts | | |
| Program Cash Receipts: | | |
| Charges for Services and Sales | \$ 575,363 | \$ 414,573 |
| Operating Grants and Contributions | 2,074,551 | 2,481,974 |
| Total Program Cash Receipts | 2,649,914 | 2,896,547 |
| General Cash Receipts: | | |
| Property Taxes | 969,910 | 988,936 |
| Grants and Entitlements not Restricted to Specific Programs | 5,417,744 | 4,972,591 |
| Investment Earnings | 60,632 | 69,830 |
| Proceeds from Sale of Capital Assets | - | 3,463 |
| Energy Conservation Improvement Bonds Issued | 400,000 | - |
| Miscellaneous | 35,969 | 32,436 |
| Total General Cash Receipts | 6,884,255 | 6,067,256 |
| Total Cash Receipts | 9,534,169 | 8,963,803 |

Total cash receipts increased by \$570,366 from 2009 to 2010 primarily due to an increase in unrestricted aid from the state and an increase due to the issuance of new debt. This was partially offset by a decrease to operating grants and contributions of \$407,423, which is due to the reduction of grant funding received.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

(Table 2)
 Changes in Net Assets
 (continued)

| | Governmental Activities | |
|---|-------------------------|---------------|
| | 2010 | 2009 |
| Program Cash Disbursements | | |
| Instruction: | | |
| Regular | \$ 3,345,782 | \$ 3,358,207 |
| Special | 794,808 | 1,001,183 |
| Vocational | 53,092 | 26,469 |
| Other | 1,111,235 | 1,075,229 |
| Support Services: | | |
| Pupils | 259,246 | 252,302 |
| Instructional Staff | 170,628 | 177,400 |
| Board of Education | 27,139 | 32,039 |
| Administration | 659,606 | 673,431 |
| Fiscal | 227,417 | 222,403 |
| Operation and Maintenance of Plant | 702,710 | 762,187 |
| Pupil Transportation | 573,904 | 706,552 |
| Central | 323,052 | 130,853 |
| Operation of Non-Instructional Services | 322,404 | 346,523 |
| Extracurricular Activities | 123,844 | 116,317 |
| Capital Outlay | 350,909 | 11,239 |
| Debt Service: | | |
| Principal | 55,000 | 55,000 |
| Interest and Fiscal Charges | 47,398 | 50,065 |
| Total Cash Disbursements | 9,148,174 | 8,997,399 |
| Change in Net Assets | 385,995 | (33,596) |
| Net Assets, Beginning of the Year | 2,274,769 | 2,308,365 |
| Net Assets, End of the Year | \$ 2,660,764 | \$ 2,274,769 |

Total cash disbursements increased \$150,775 from 2009 to 2010. Cash disbursements for capital outlay and central increased \$339,670 and \$192,199, respectively, from 2009 to 2010 primarily due to remodeling, upgrading, and installation of energy conservation equipment. Cash disbursements for special instruction decreased \$206,375 from 2009 to 2010 primarily due to the change in restrictions on the spending of the State foundation funding. Cash disbursements for pupil transportation decreased \$132,648 from 2009 to 2010 primarily due to the replacement of a school bus in the previous fiscal year and due to a decrease in personnel costs.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Governmental Activities

Grants and entitlements not restricted to specific programs made up 57 percent of cash receipts for governmental activities of the Eastern Local School District for fiscal year 2010. Property tax receipts made up 10 percent of the total cash receipts for governmental activities for a total of 67 percent of all cash receipts coming from property taxes and grants and entitlements not restricted to specific programs.

Regular instruction comprises 37 percent of governmental program cash disbursements. Support services expenses make up 32 percent of governmental cash disbursements.

The statement of activities shows the cost of program services and the charges for services and sales and grants and contributions offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program cash receipts. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent charges for services, restricted grants, fees and donations.

(Table 3)
 Governmental Activities

| | Total Cost of Services 2010 | Net Cost of Services 2010 | Total Cost of Services 2009 | Net Cost of Services 2009 |
|---|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction | \$ 5,304,917 | \$ 3,881,658 | \$ 5,461,088 | \$ 3,594,280 |
| Support Services | 2,943,702 | 2,080,286 | 2,957,167 | 2,311,919 |
| Operation of Non-Instructional Services | 322,404 | 1,762 | 346,523 | (1,231) |
| Extracurricular Activities | 123,844 | 81,247 | 116,317 | 79,580 |
| Capital Outlay | 350,909 | 350,909 | 11,239 | 11,239 |
| Principal | 55,000 | 55,000 | 55,000 | 55,000 |
| Interest and Fiscal Charges | 47,398 | 47,398 | 50,065 | 50,065 |
| Total Cash Disbursements | <u>\$ 9,148,174</u> | <u>\$ 6,498,260</u> | <u>\$ 8,997,399</u> | <u>\$ 6,100,852</u> |

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$9,577,298 and cash disbursements and other financing uses of \$9,219,600. The most significant change in fund balance was in the General Fund.

For the General Fund, receipts increased \$342,751, primarily due to an increase in State foundation funding, but also attributable to an increase in tuition and fees that was due to an increase in the open enrollment aid received from the State. Disbursements increased \$163,946 from the prior year primarily due to remodeling, upgrading, and installation of energy conservation equipment. Overall, cash disbursements were lower than the current year cash receipts and other financing sources resulting in an increase in fund balance for the General Fund of \$337,613.

For the Bond Retirement fund, intergovernmental receipts increased only slightly and cash disbursements were consistent with the prior year. Cash receipts exceeded cash disbursements resulting in the increase in fund balance in the amount of \$32,844.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

General Fund - Budget Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2010, the District revised its budget.

For fiscal year 2010, the District filed an amended certificate of estimated resources. For the General Fund, final estimated receipts and other financing sources were \$7,647,002, with original estimated receipts and other financing sources of \$6,683,810. Actual receipts and other financing sources were \$7,646,902, a difference of \$100 under final estimated receipts, due mainly to lower than expected interest income.

At the end of fiscal year 2010, the District filed an amended appropriations resolution. This resulted in the General Fund's final appropriations increasing \$605,326 over the original appropriations. Actual expenditures and other financing uses were \$7,450,037, which is the same as the final estimated disbursements.

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had capital outlay disbursements of \$350,909 during fiscal year 2010.

Debt

Under the cash basis of accounting the District does not report bonds in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds. At June 30, 2010, the District had \$1,255,000 in general obligation bonds. For additional information regarding debt, see Note 9 to the basic financial statements. Table 4 summarizes the outstanding debt:

(Table 4)
 Outstanding Debt, at Year End
 Governmental Activities

| | 2010 | 2009 |
|--|--------------|------------|
| 1998 School Improvement General Obligation Bonds | \$ 855,000 | \$ 910,000 |
| 2010 Energy Conservation Improvement Bonds | 400,000 | - |
| Total | \$ 1,255,000 | \$ 910,000 |

The School District's overall legal debt margin was \$3,068,071 with an unvoted debt margin of \$48,034 at June 30, 2010.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Rodney Schilling, Treasurer at Eastern Local School District, 1170 Tile Mill Road, Beaver, Ohio 45613.

Eastern Local School District
Statement of Net Assets - Cash Basis
As of June 30, 2010

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$ 2,539,866 |
| Restricted Cash and Cash Equivalents | <u>120,898</u> |
| <i>Total Assets</i> | <u>2,660,764</u> |
| Net Assets | |
| Restricted for: | |
| Capital Projects | 241,476 |
| Debt Service | 447,024 |
| Other Purposes | 179,242 |
| Set-asides | 120,898 |
| Unrestricted | <u>1,672,124</u> |
| <i>Total Net Assets</i> | <u>\$ 2,660,764</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2010

| | <u>Program Cash Receipts</u> | | | Net (Cash Disbursements) Cash Receipts and Changes in Net Assets |
|---|-------------------------------|---|---|--|
| | <u>Cash Disbursements</u> | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$ 3,345,782 | \$ 221,916 | \$ 705,071 | \$ (2,418,795) |
| Special | 794,808 | 51,331 | 266,395 | (477,082) |
| Vocational | 53,092 | 3,016 | 44,174 | (5,902) |
| Other | 1,111,235 | 75,627 | 55,729 | (979,879) |
| Support Services: | | | | |
| Pupils | 259,246 | 17,506 | 22,575 | (219,165) |
| Instructional Staff | 170,628 | 11,736 | - | (158,892) |
| Board of Education | 27,139 | 1,867 | - | (25,272) |
| Administration | 659,606 | 42,593 | 192,652 | (424,361) |
| Fiscal | 227,417 | 15,278 | 1,006 | (211,133) |
| Operation and Maintenance of Plant | 702,710 | 47,562 | 53,435 | (601,713) |
| Pupil Transportation | 573,904 | 39,460 | 371,008 | (163,436) |
| Central | 323,052 | 21,861 | 24,877 | (276,314) |
| Operation of Non-Instructional | | | | |
| Services | 322,404 | 17,590 | 303,052 | (1,762) |
| Extracurricular Activities | 123,844 | 8,020 | 34,577 | (81,247) |
| Capital Outlay | 350,909 | - | - | (350,909) |
| Debt Service: | | | | |
| Principal | 55,000 | - | - | (55,000) |
| Interest and Fiscal Charges | 47,398 | - | - | (47,398) |
| <i>Total Governmental Activities</i> | <u>\$ 9,148,174</u> | <u>\$ 575,363</u> | <u>\$ 2,074,551</u> | <u>(6,498,260)</u> |
| General Cash Receipts | | | | |
| Property Taxes Levied for: | | | | |
| General Purposes | | | | 836,472 |
| Debt Service | | | | 117,667 |
| Classroom Facilities Maintenance | | | | 15,771 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 5,417,744 |
| Investment Earnings | | | | 60,632 |
| Miscellaneous | | | | 35,969 |
| Energy Conservation Improvement Bonds Issued | | | | 400,000 |
| <i>Total General Cash Receipts</i> | | | | <u>6,884,255</u> |
| <i>Change in Net Assets</i> | | | | 385,995 |
| <i>Net Assets Beginning of Year</i> | | | | <u>2,274,769</u> |
| <i>Net Assets End of Year</i> | | | | <u>\$ 2,660,764</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
As of June 30, 2010

| | <u>General Fund</u> | <u>Bond Retirement Fund</u> | <u>All Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---------------------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 1,357,516 | \$ 447,024 | \$ 420,718 | \$ 2,225,258 |
| Restricted Cash and Cash Equivalents | 120,898 | - | - | 120,898 |
| <i>Total Assets</i> | <u>\$ 1,478,414</u> | <u>\$ 447,024</u> | <u>\$ 420,718</u> | <u>\$ 2,346,156</u> |
| Fund Balances | | | | |
| Reserved: | | | | |
| Reserved for Encumbrances | \$ 140,752 | \$ - | \$ 96,290 | \$ 237,042 |
| Reserved for Textbooks and Instructional Materials | 119,402 | - | - | 119,402 |
| Reserved for Bus Purchases | 1,496 | - | - | 1,496 |
| Unreserved, Designated: | | | | |
| Designated for Capital Improvements | 42,633 | - | - | 42,633 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 1,174,131 | - | - | 1,174,131 |
| Special Revenue Funds | - | - | 168,900 | 168,900 |
| Debt Service Funds | - | 447,024 | - | 447,024 |
| Capital Projects Funds | - | - | 155,528 | 155,528 |
| <i>Total Fund Balances</i> | <u>\$ 1,478,414</u> | <u>\$ 447,024</u> | <u>\$ 420,718</u> | <u>\$ 2,346,156</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2010

| | |
|--|----------------------------|
| Total Governmental Fund Balances | \$ 2,346,156 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | <u>314,608</u> |
| Net Assets of Governmental Activities | <u><u>\$ 2,660,764</u></u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2010

| | <u>General Fund</u> | <u>Bond Retirement Fund</u> | <u>All Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-----------------------------|-------------------------------------|---------------------------------|
| Cash Receipts | | | | |
| Property Taxes | \$ 836,472 | \$ 117,667 | \$ 15,771 | \$ 969,910 |
| Intergovernmental | 5,797,388 | 22,726 | 1,671,331 | 7,491,445 |
| Interest | 60,532 | - | 100 | 60,632 |
| Tuition and Fees | 418,469 | - | 75 | 418,544 |
| Extracurricular Activities | - | - | 33,174 | 33,174 |
| Gifts and Donations | - | - | 850 | 850 |
| Customer Sales and Services | 60,000 | - | 63,645 | 123,645 |
| Miscellaneous | 32,668 | - | 3,301 | 35,969 |
| <i>Total Cash Receipts</i> | <u>7,205,529</u> | <u>140,393</u> | <u>1,788,247</u> | <u>9,134,169</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,631,488 | - | 742,591 | 3,374,079 |
| Special | 550,791 | - | 244,017 | 794,808 |
| Vocational | 6,567 | - | 46,525 | 53,092 |
| Other | 1,052,540 | - | 58,695 | 1,111,235 |
| Support Services: | | | | |
| Pupils | 235,470 | - | 23,776 | 259,246 |
| Instructional Staff | 170,628 | - | - | 170,628 |
| Board of Education | 27,139 | - | - | 27,139 |
| Administration | 456,702 | - | 202,904 | 659,606 |
| Fiscal | 221,567 | 5,151 | 699 | 227,417 |
| Operation and Maintenance of Plant | 646,432 | - | 56,278 | 702,710 |
| Pupil Transportation | 573,014 | - | 890 | 573,904 |
| Central | 296,851 | - | 26,201 | 323,052 |
| Operation of Non-Instructional Services | - | - | 322,404 | 322,404 |
| Extracurricular Activities | 87,427 | - | 36,417 | 123,844 |
| Capital Outlay | 350,909 | - | - | 350,909 |
| Debt Service: | | | | |
| Principal | - | 55,000 | - | 55,000 |
| Interest and Fiscal Charges | - | 47,398 | - | 47,398 |
| <i>Total Cash Disbursements</i> | <u>7,307,525</u> | <u>107,549</u> | <u>1,761,397</u> | <u>9,176,471</u> |
| <i>Excess of Cash Receipts Over (Under) Cash Disbursements</i> | <u>(101,996)</u> | <u>32,844</u> | <u>26,850</u> | <u>(42,302)</u> |
| Other Financing Sources and Uses | | | | |
| Transfers In | 41,369 | - | 1,760 | 43,129 |
| Energy Conservation Improvement Bonds Issued | 400,000 | - | - | 400,000 |
| Transfers Out | (1,760) | - | (41,369) | (43,129) |
| <i>Total Other Financing Sources and Uses</i> | <u>439,609</u> | <u>-</u> | <u>(39,609)</u> | <u>400,000</u> |
| <i>Net Change in Fund Balances</i> | 337,613 | 32,844 | (12,759) | 357,698 |
| <i>Fund Balances at Beginning of Year</i> | <u>1,140,801</u> | <u>414,180</u> | <u>433,477</u> | <u>1,988,458</u> |
| <i>Fund Balances at End of Year</i> | <u>\$ 1,478,414</u> | <u>\$ 447,024</u> | <u>\$ 420,718</u> | <u>\$ 2,346,156</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010*

| | |
|---|------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 357,698 |
|---|------------|

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

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipt (disbursement) of the internal service fund is allocated among the governmental activities.

28,297

Net Change in Net Assets of Governmental Activities

\$ 385,995

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|------------------------|---------------------|---------------------|---------------------------------------|
| Receipts | | | | |
| Property Taxes | \$ 868,780 | \$ 836,472 | \$ 836,472 | \$ - |
| Intergovernmental | 5,352,622 | 5,797,388 | 5,797,388 | - |
| Interest | 70,062 | 60,636 | 60,532 | (104) |
| Tuition and Fees | 305,069 | 418,469 | 418,469 | - |
| Customer Sales and Services | 60,053 | 60,000 | 60,000 | - |
| Miscellaneous | 27,224 | 32,668 | 32,668 | - |
| Total Receipts | 6,683,810 | 7,205,633 | 7,205,529 | (104) |
| Disbursements | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,430,019 | 2,665,945 | 2,665,945 | - |
| Special | 786,046 | 550,791 | 550,791 | - |
| Vocational | 4,901 | 6,567 | 6,567 | - |
| Other | 879,378 | 1,052,540 | 1,052,540 | - |
| Support Services: | | | | |
| Pupils | 233,683 | 237,847 | 237,847 | - |
| Instructional Staff | 185,303 | 170,628 | 170,628 | - |
| Board of Education | 34,859 | 27,489 | 27,489 | - |
| Administration | 629,966 | 463,638 | 463,638 | - |
| Fiscal | 226,137 | 221,617 | 221,617 | - |
| Operation and Maintenance of Plant | 711,354 | 676,547 | 676,547 | - |
| Pupil Transportation | 556,411 | 576,890 | 576,890 | - |
| Central | 89,067 | 296,851 | 296,851 | - |
| Extracurricular Activities | 77,587 | 100,927 | 100,927 | - |
| Capital Outlay | - | 400,000 | 400,000 | - |
| Total Disbursements | 6,844,711 | 7,448,277 | 7,448,277 | - |
| Excess of Receipts Under Disbursements | (160,901) | (242,644) | (242,748) | (104) |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | 41,369 | 41,369 | - |
| Energy Conservation Improvement Bonds Issued | - | 400,000 | 400,000 | - |
| Transfers Out | - | (1,760) | (1,760) | - |
| Total Other Financing Sources (Uses) | - | 439,609 | 439,609 | - |
| Net Change in Fund Balance | (160,901) | 196,965 | 196,861 | (104) |
| Fund Balance at Beginning of Year | 1,130,348 | 1,130,348 | 1,130,348 | - |
| Prior Year Encumbrances Appropriated | 10,453 | 10,453 | 10,453 | - |
| Fund Balance at End of Year | \$ 979,900 | \$ 1,337,766 | \$ 1,337,662 | \$ (104) |

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
As of June 30, 2010

| | <u>Governmental Activities - Internal Service Fund</u> |
|--|--|
| Assets | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 314,608 |
| <i>Total Assets</i> | <u>314,608</u> |
| Net Assets | |
| Unrestricted | <u>314,608</u> |
| <i>Total Net Assets</i> | <u>\$ 314,608</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Fiscal Year Ended June 30, 2010

| | <u>Governmental Activities - Internal Service Fund</u> |
|---|--|
| Operating Cash Receipts | |
| Charges for Services | \$ 324,008 |
| | <hr/> |
| <i>Total Operating Cash Receipts</i> | <u>324,008</u> |
| Operating Cash Disbursements | |
| Purchased Services | 295,711 |
| | <hr/> |
| <i>Total Operating Cash Disbursements</i> | <u>295,711</u> |
| <i>Net Change in Net Assets</i> | 28,297 |
| <i>Net Assets at Beginning of Year</i> | <hr/> <u>286,311</u> |
| <i>Net Assets at End of Year</i> | <u>\$ 314,608</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Fund
As of June 30, 2010

| | <u>Agency Fund</u> |
|--|--------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 17,550</u> |
| Net Assets | |
| Unrestricted | <u>\$ 17,550</u> |
| <i>Total Net Assets</i> | <u>\$ 17,550</u> |

See accompanying notes to the basic financial statements.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Eastern Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines. The District was established in 1960 through the consolidation of existing land areas and school districts. The District serves an area of approximately 107 square miles. It is located in Pike County, and includes all of the Villages of Beaver and Stockdale and portions of Marion, Union, and East Jackson Townships in Pike County, Madison Township in Scioto County and Liberty Township in Jackson County. It is staffed by 33 non-certificated employees, 53 certificated full-time teaching personnel, and 5 administrators who provide services to 792 students and other community members. The District currently operates three instructional buildings.

Reporting Entity:

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

- Village of Beaver
- Ross - Pike County Educational Service District

The District participates in two organizations, one of which is defined as a jointly governed organization, and one as a group purchasing pool. These organizations are the South Central Ohio Computer Association and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 10 and 11 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis Of Presentation

The District uses the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The 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 that provide a more detailed level of financial information.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide Financial Statements:

The statement of net assets-cash basis presents the cash basis financial condition of the governmental activities of the District at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the District's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program cash receipts 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. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the District. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the District.

Fund Financial Statements:

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Cash basis assets are assigned to the various governmental funds according to the purpose for which they may or must be used. On a cash basis governmental fund assets equal fund balance. The following are the District's major governmental funds:

General Fund

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Retirement Fund

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

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

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating cash receipts over/(under) cash disbursements, changes in net cash assets, and cash basis financial position. Proprietary funds are classified as enterprise or internal service; the Eastern Local School District has no enterprise funds and one internal service fund.

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Eastern Local School District on a cost reimbursement basis. The District's only internal service fund accounts for the self-insurance program for employee dental claims and to provide self insurance for health care claims under \$3,000 for single coverage and \$6,000 for family coverage.

Fiduciary Fund

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

C. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid), and accrued expenses and liabilities are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Receipts – Exchange and Non-exchange Transactions

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the fiscal year in which the resources are received.

Cash Disbursements

On the cash basis of accounting, disbursements are recognized at the time payments are made.

D. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level; however, the District has chosen to report their budgetary financial statement for the General Fund at the function level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

E. Cash and Cash Equivalents

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$60,532 and \$100 for All Other Governmental Funds.

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 District are presented on the financial statements as cash equivalents.

F. 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 imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the District for textbooks and instructional materials, and bus purchases.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets

Capital assets acquired or constructed for the District are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported on the basic financial statements.

H. Interfund Activity

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

I. Compensated Absences

Vacation and sick leave benefits are not accrued under the cash basis of accounting. All leave will either be absorbed by time off from work or, within certain limitations, be paid to the employees.

J. Long-Term Obligations

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

K. Fund Balance Reserves

The District records reservations for 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 are established for encumbrances, textbooks and instructional materials, and bus purchases.

L. Net Assets

Net assets represent the cash basis assets held by the District at year end. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants. The District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available.

At June 30, 2010, the District had \$988,640 in restricted net assets, none of which was restricted by enabling legislation.

M. Operating Cash Receipts and Cash Disbursements

Operating cash receipts are those cash receipts that are generated directly from the primary activity of the proprietary fund. For the District, these cash receipts are charges for services for medical, life, and dental benefits provided to employees. Operating cash disbursements are necessary costs incurred to provide the service that is the primary activity of the fund.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fund Designation

The District designated a portion of fund balance in the General Fund for the purpose of capital expenditures.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
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. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

Protection of the 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 purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the District deposits will 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 accounts 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, 2010, the District's bank balance of \$2,813,009 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner described above.

NOTE 4 - PROPERTY TAXES

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 4 - PROPERTY TAXES (continued)

Public utility property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2010, and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after April 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The Pike, Jackson, and Scioto County Treasurers collect property taxes on behalf of all taxing districts within the Counties. The Pike, Jackson, and Scioto County Auditors periodically remit to the taxing districts their portion of the taxes collected.

The assessed values upon which fiscal year 2010 taxes were collected are:

| | 2009 Second- Half Collections | | 2010 First- Half Collections | |
|---|----------------------------------|-----------------------|---------------------------------|-----------------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$42,473,640 | 89.46% | \$43,103,970 | 89.79% |
| Public Utility | 4,430,780 | 9.33% | 4,560,520 | 9.49% |
| Tangible Personal Property | <u>572,406</u> | <u>1.21%</u> | <u>369,630</u> | <u>0.72%</u> |
| Total Assessed Value | <u><u>\$47,476,826</u></u> | <u><u>100.00%</u></u> | <u><u>\$48,034,120</u></u> | <u><u>100.00%</u></u> |
| Tax rate per \$1,000 of assessed valuation | \$33.36 | | \$33.36 | |

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 5 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District contracted with Argonaut Insurance Company for property, fleet, and professional liability insurance coverage. Coverages provided are as follows:

| | |
|---|--------------|
| Building and Contents-90% Co-insurance (\$1,000 deductible) | \$28,008,000 |
| Boiler and Machinery-90% Co-insurance (\$1,000 deductible) | 28,008,000 |
| Automobile Liability | 1,000,000 |
| Uninsured Motorists | 1,000,000 |

During fiscal year 2010, the District contracted with Cincinnati Insurance Company and Western Surety Company for public official bonds as follows:

| | |
|---|----------|
| Treasurer / Superintendent / Board President (each) | \$20,000 |
| Blanket bond (Assistant Treasurer and two cashiers) | 5,000 |

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

For fiscal year 2010, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), a group purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participants' individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling arrangement" ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Compmanagement provides administrative, cost control and actuarial services to the GRP.

Dental insurance is offered to employees through a self-insurance internal service fund. Coresource is the District's third party administrator who informs the District of claim payments needed each week. Coresource provides an actuarial study each year and advises the District as to any change needed in premium payments to the internal service fund. Under the cash basis of accounting the District does not record a liability for unpaid claims in the accompanying basic financial statements.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$164,687, \$156,768, and \$153,864, respectively, which represents the required annual contribution for each year.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio 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.

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 percent of earned compensation among various investment choices. The Combined Plan offers features of both 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 Defined Benefit 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 of 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.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

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 Defined Benefit Plan participants.

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

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

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, 2010, 2009, and 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$476,880, \$470,820, and \$466,440, respectively, which represents the required annual contribution for each year.

STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, two members of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 7-POSTEMPLOYMENT BENEFITS

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 Ohio 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 Financial Annual Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2010, 2009 and 2008. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the District, these amounts equaled \$34,063, \$33,630, and \$33,317 for fiscal years 2010, 2009, and 2008, respectively, which is equal to the required amount for each year.

In addition to a cost-sharing, multiple-employer defined benefit pension plan, the School Employees Retirement System (SERS) administers two post employment 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 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 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. 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 2010, 2009, and 2008, the actuarially required allocation was 0.76 percent, 0.75 percent, and .66 percent. For the District, contributions for the years ended June 30, 2010, 2009, and 2008, were \$8,940, \$8,398, and \$7,254, 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 HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 7-POSTEMPLOYMENT BENEFITS (continued)

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 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2010, 2009, and 2008, the health care allocations were 0.46 percent, 4.16 percent, and 4.18 percent, respectively. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2010, 2009, and 2008 fiscal years equaled \$21,207, \$64,034, and \$61,258, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, 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 *Employers/Audit Resources*.

NOTE 8-EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for teachers and administrators and 220 days for classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 8-EMPLOYEE BENEFITS (continued)

B. Insurance

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

C. Deferred Compensation

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

NOTE 9 - LONG-TERM DEBT

Under the cash basis of accounting the District does not record debt as a liability in the accompanying basic financial statements. However, in order to provide meaningful information regarding debt to readers of these basic financial statements, the District has elected to present the following information. The changes in the District's long-term debt during fiscal year 2010 were as follows:

| | Debt Outstanding 6/30/2009 | Additions | Deductions | Debt Outstanding 6/30/2010 | Due in One Year |
|--|----------------------------------|-------------------|------------------|----------------------------------|--------------------|
| 1998 School Improvement General Obligation Bonds - 4.0% - 5.0% | \$ 910,000 | \$ - | \$ 55,000 | \$ 855,000 | \$ 60,000 |
| 2010 Energy Conservation Improvement Bonds - 3.25% | - | 400,000 | - | 400,000 | 21,115 |
| Total | <u>\$ 910,000</u> | <u>\$ 400,000</u> | <u>\$ 55,000</u> | <u>\$ 1,255,000</u> | <u>\$ 81,115</u> |

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

2010 Energy Conservation Improvement Bonds - On February 16, 2010, the District issued \$400,000 in voted energy conservation improvement bonds for the purpose of installations, modifications and remodeling to reduce energy consumption by the District. The bonds were issued for a fifteen year period with final maturity during fiscal year 2025. The bonds will be retired from the General fund.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 9 - LONG-TERM DEBT (continued)

Principal and interest requirements to retire general obligation debt at June 30, 2010, are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|-------------------|---------------------|
| 2011 | \$ 81,115 | \$ 54,542 | \$ 135,657 |
| 2012 | 81,802 | 52,964 | 134,766 |
| 2013 | 87,510 | 48,505 | 136,015 |
| 2014 | 93,242 | 43,724 | 136,966 |
| 2015 | 98,997 | 38,618 | 137,615 |
| 2016-2020 | 557,204 | 118,998 | 676,202 |
| 2021-2025 | 255,130 | 17,947 | 273,077 |
| Total | <u>\$ 1,255,000</u> | <u>\$ 375,298</u> | <u>\$ 1,630,298</u> |

The District's overall legal debt margin was \$3,068,071 with an unvoted debt margin of \$48,034 at June 30, 2010.

NOTE 10 - GROUP PURCHASING POOL

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

NOTE 11 - JOINTLY GOVERNED ORGANIZATION

South Central Ohio Computer Association - The 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, Pickaway, Gallia, 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 District paid SCOCA \$139,715 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career Technology Center, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

NOTE 12 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 12 - SET-ASIDE CALCULATIONS AND FUND RESERVES (continued)

| | Textbooks | Capital Acquisition | Bus Purchases |
|---|-------------------|------------------------|------------------|
| Set-aside Reserve Balance as of June 30, 2009 | \$ 120,176 | \$ - | \$ 1,496 |
| Current year set-aside requirement | 103,811 | 103,811 | - |
| Prior Year Carryover | - | (365,040) | - |
| Current Year Offsets | - | (15,771) | - |
| Qualifying disbursements | (104,585) | (100,032) | - |
| Totals | 119,402 | (377,032) | 1,496 |
| Set-aside Reserve Balance as of June 30, 2010 | <u>\$ 119,402</u> | <u>\$ -</u> | <u>\$ 1,496</u> |

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero in the Capital Acquisition Reserve. The carryover amount in the Capital Acquisition Reserve is limited to the balance of the offsets attributed to bond or tax levy proceeds, which was \$0 as of June 30, 2010. The District's Board additionally designated a portion of fund balance in the General Fund for the purpose of capital expenditures. The additional amount designated at June 30, 2010 was \$42,633.

NOTE 13 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

NOTE 14 - COMPLIANCE

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This is not in compliance with Ohio law.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE 15 – PENDING LITIGATION

At June 30, 2010, the District is party to a lawsuit. The outcome of this lawsuit cannot be determined at this time; however, it is not expected to have a material adverse affect on the basic financial statements.

NOTE 16- BUDGETARY BASIS FUND BALANCES

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances. The table below presents those differences for the District's General Fund:

| | |
|------------------------------|----------------------------|
| | <u>General Fund</u> |
| Budgetary Basis Fund Balance | \$ 1,337,662 |
| Encumbrances | 140,752 |
| Fund Cash Balance | <u><u>\$ 1,478,414</u></u> |

NOTE 17 – INTERFUND ACTIVITY

The School District made the following transfers during fiscal year 2010:

| <u>Interfund Transfers</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------|-------------------------|-------------------------|
| General Fund | \$ 41,369 | \$ 1,760 |
| Other Governmental Funds | 1,760 | 41,369 |
| Total Transfers | <u><u>\$ 43,129</u></u> | <u><u>\$ 43,129</u></u> |

The General Fund transferred unrestricted funds to various other governmental funds to subsidize operations. The Poverty Based Assistance Fund transferred the remaining fund balance to the General Fund upon completion of the program.

Eastern Local School District
Pike County

Schedule of Federal Awards Receipts and Expenditures
For the Year Ended June 30, 2010

| Federal Grantor/ Pass Through Grantor/ Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|----------------------------------|---------------------------|---------------------|----------------------|---------------------|---------------------------|
| United States Department of Agriculture | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| <i>Nutrition Cluster:</i> | | | | | | |
| National School Breakfast Program | 3L70 | 10.553 | \$ 111,266 | \$ - | \$ 111,266 | \$ - |
| National School Lunch Program | 3L60 | 10.555 | 167,821 | 17,351 | 167,821 | 17,351 |
| Summer Food Service Program for Children | 3L60 | 10.559 | 6,272 | - | 6,272 | - |
| Total - Nutrition Cluster | | | 285,359 | 17,351 | 285,359 | 17,351 |
| ARRA - Child Nutrition Discretionary Grants Limited Availability | 3DC0 | 10.579 | 3,225 | - | 3,225 | - |
| Total United States Department of Agriculture | | | 288,584 | 17,351 | 288,584 | 17,351 |
| United States Department of Education | | | | | | |
| <i>Passed through Ohio Department of Education</i> | | | | | | |
| <i>Special Education Cluster:</i> | | | | | | |
| Special Education - Grants to States | 3M20 | 84.027 | 182,329 | - | 188,106 | - |
| ARRA - Special Education Grants to States, Recovery Act | 3DJ0 | 84.391 | 96,153 | - | 96,217 | - |
| Total Special Education Cluster | | | 278,482 | - | 284,323 | - |
| <i>Title I, Part A Cluster:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 3M00 | 84.010 | 329,990 | - | 314,634 | - |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 3DK0 | 84.389 | 97,127 | - | 93,877 | - |
| Total Title I, Part A Cluster | | | 427,117 | - | 408,511 | - |
| Safe and Drug Free Schools and Communities State Grants | 3D10 | 84.186 | 3,488 | - | 4,268 | - |
| Education Technology State Grants | 3S20 | 84.318 | 2,962 | - | 2,962 | - |
| Rural Education | 3Y80 | 84.358 | 18,660 | - | 18,505 | - |
| Improving Teacher Quality State Grants | 3Y60 | 84.367 | 84,052 | - | 83,888 | - |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | GRF | 84.394 | 376,216 | - | 373,656 | - |
| Total United States Department of Education | | | 1,190,977 | - | 1,176,113 | - |
| Total Federal Financial Assistance | | | <u>\$ 1,479,561</u> | <u>\$ 17,351</u> | <u>\$ 1,464,697</u> | <u>\$ 17,351</u> |

See Notes to the Schedule of Federal Awards Receipts and Expenditures.

Eastern Local School District
Notes to the Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTIONS

Program regulations do not require the School 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.

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



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Eastern Local School District, Pike County (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 12, 2010, wherein we noted that the School District follows the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School 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 an instance of noncompliance we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2010-001.

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

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



Balestra, Harr & Scherer, CPAs, Inc.

November 12, 2010



**Report on Compliance With Requirements Applicable to Each Major Federal Program and
on Internal Control Over Compliance Required by OMB Circular A-133**

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

To the Board of Education:

Compliance

We have audited the compliance of the Eastern Local School District, Pike County (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2010. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the Eastern Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

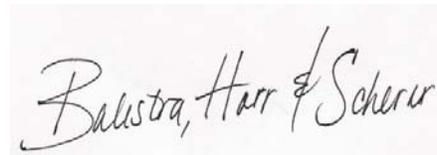
The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal 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 opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Internal Control Over Compliance (Continued)

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

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 over compliance that might be deficiencies, 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 management, Members of the Board, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 12, 2010

EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY
JUNE 30, 2010

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505

SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|--|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under section .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I, Part A Cluster, CFDA #84.010 and #84.389; Special Education Cluster, CFDA #84.027 and #84.391; State Fiscal Stabilization Fund Cluster, CFDA #84.394 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY
JUNE 30, 2010

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505

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

Finding Number 2010-001

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. The School District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

We recommend the School District prepare its annual financial report in accordance with generally accepted accounting principles.

Client Response

The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|---|
| 2009-001 | A noncompliance citation was Issued for Ohio Revised Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles. | No | Not Corrected: The School District's officials did not believe that preparing financial Statements in accordance with generally accepted accounting principles was cost beneficial. Reissued as Finding Number 2010-001. |

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Mary Taylor, CPA
Auditor of State

EASTERN LOCAL SCHOOL DISTRICT

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 4, 2011**