



Mary Taylor, CPA
Auditor of State

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

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EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Eaton Community School District
Preble County
312 North Barron Street
Eaton, Ohio 45320

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by 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 federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

March 25, 2008

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

The discussion and analysis of Eaton Community School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2007 are as follows:

- ❑ In total, net assets increased \$3,672,187. Net assets of governmental activities increased \$3,673,647, which represents a 39.3% increase from 2006. Net assets of business-type activities decreased \$1,460 or 0.9% from 2006.
- ❑ General revenues accounted for \$21,970,858 in revenue or 88.6% of all revenues for governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,815,147 or 11.4% of total revenues of \$24,786,005.
- ❑ The District had \$20,271,681 in expenses related to governmental activities; only \$1,974,470 of these expenses was offset by program specific charges for services, grants or contributions. General revenues of \$21,970,858 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$20,714,967 in revenues and \$16,505,082 in expenditures. The general fund's fund balance increased \$4,200,826 to \$7,369,851.
- ❑ Net assets for the enterprise fund decreased \$1,460. This was attributable to increased costs associated with food supplies and wages.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the District's overall financial status.
2. The Fund Financial Statements – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007***

Unaudited

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District are divided into two categories:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District's food service fund is reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2007 compared to 2006.

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$19,572,873	\$17,247,948	\$114,299	\$107,825	\$19,687,172	\$17,355,773
Capital assets, Net	33,446,702	34,181,890	157,270	166,640	33,603,972	34,348,530
Total assets	<u>53,019,575</u>	<u>51,429,838</u>	<u>271,569</u>	<u>274,465</u>	<u>53,291,144</u>	<u>51,704,303</u>
Long-term debt outstanding	30,812,426	30,678,378	21,998	22,955	30,834,424	30,701,333
Other liabilities	9,185,057	11,403,015	94,352	94,831	9,279,409	11,497,846
Total liabilities	<u>39,997,483</u>	<u>42,081,393</u>	<u>116,350</u>	<u>117,786</u>	<u>40,113,833</u>	<u>42,199,179</u>
Net assets						
Invested in capital assets, net of related debt	4,853,009	5,019,318	157,270	166,640	5,010,279	5,185,958
Restricted	3,025,534	2,857,833	0	0	3,025,534	2,857,833
Unrestricted	5,143,549	1,471,294	(2,051)	(9,961)	5,141,498	1,461,333
Total net assets	<u>\$13,022,092</u>	<u>\$9,348,445</u>	<u>\$155,219</u>	<u>\$156,679</u>	<u>\$13,177,311</u>	<u>\$9,505,124</u>

The restricted net assets of the District remained stable during the 2007 fiscal year increasing by about 6% from 2006 levels. Increased funds in several special revenue funds and the debt service funds accounted for the increase in restricted assets.

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2007 compared to 2006:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for Services and Sales	\$850,106	\$795,786	\$554,694	\$548,122	\$1,404,800	\$1,343,908
Operating Grants and Contributions	1,124,364	999,160	285,983	289,191	1,410,347	1,288,351
General revenues:						
Property and Income Taxes	12,238,603	9,949,561	0	0	12,238,603	9,949,561
Grants and Entitlements	8,885,429	8,236,404	0	0	8,885,429	8,236,404
Other	846,826	411,914	0	0	846,826	411,914
Total revenues	23,945,328	20,392,825	840,677	837,313	24,786,005	21,230,138
Program Expenses						
Instruction	11,279,880	11,144,042	0	0	11,279,880	11,144,042
Support Services:						
Pupils	844,884	928,665	0	0	844,884	928,665
Instructional Staff	629,707	729,096	0	0	629,707	729,096
Board of Education	17,848	15,907	0	0	17,848	15,907
Administration	1,572,317	1,627,063	0	0	1,572,317	1,627,063
Fiscal Services	583,280	572,187	0	0	583,280	572,187
Business	4,955	1,654	0	0	4,955	1,654
Operation and Maintenance of Plant	1,823,805	1,992,560	0	0	1,823,805	1,992,560
Pupil Transportation	1,212,265	1,317,755	0	0	1,212,265	1,317,755
Central	87,386	87,726	0	0	87,386	87,726
Community Services	3,067	15,870	0	0	3,067	15,870
Extracurricular Activities	774,918	628,898	0	0	774,918	628,898
Debt Service:						
Interest and Fiscal Charges	1,437,369	1,513,939	0	0	1,437,369	1,513,939
Food Service	0	0	842,137	815,321	842,137	815,321
Total expenses	20,271,681	20,575,362	842,137	815,321	21,113,818	21,390,683
Total Change in Net Assets	3,673,647	(182,537)	(1,460)	21,992	3,672,187	(160,545)
Beginning Net Assets	9,348,445	9,530,982	156,679	134,687	9,505,124	9,665,669
Ending Net Assets	\$13,022,092	\$9,348,445	\$155,219	\$156,679	\$13,177,311	\$9,505,124

Governmental Activities

Net assets of the District's governmental activities increased \$3,673,647. During 2007 higher tax collections and State and Federal funding helped to increase the District's net assets. Increased tax revenues were the result of higher income tax collections. The income taxes increased due to higher tax base due to increased salaries in the region. Property taxes also increased due to the increases in appraised values. These increases helped to offset the increasing costs of salaries and benefits, as well as increased utility costs for the District. The District's attempt to limit expenditure increases was successful in 2007, the District was able to reduce costs by about \$300,000.

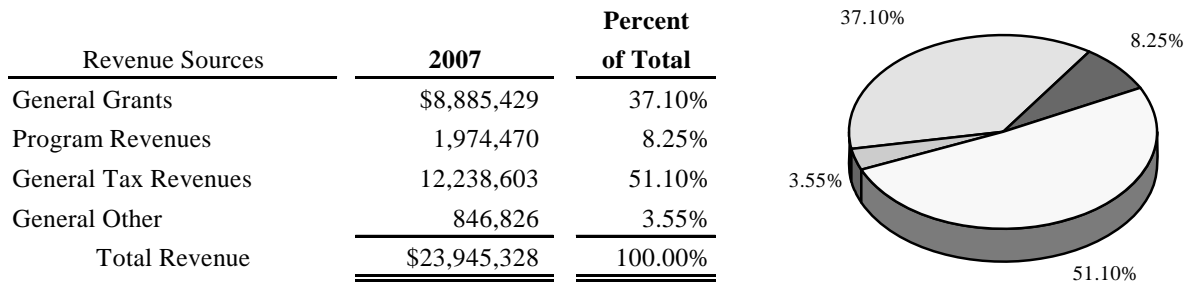
EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. However, the assessed millage for the District has already been reduced to the 20 mill floor. Consequently, the District will receive some increased revenues as property values increase with reappraisals.

Property and income taxes made up 51.1% of revenues for governmental activities for Eaton Community Schools in fiscal year 2007. The District's reliance upon tax revenues is demonstrated by the following graph:



Business-Type Activities

Net assets of the business-type activities decreased \$1,460. This was mainly attributable to increased costs of salaries and food supplies.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$9,772,364, which is above last year's balance of \$5,447,364. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2007 and 2006.

	<u>Fund Balance June 30, 2007</u>	<u>Fund Balance June 30, 2006</u>	<u>Increase (Decrease)</u>
General	\$7,369,851	\$3,169,025	\$4,200,826
Bond Retirement	1,191,775	1,047,555	144,220
Other Governmental	1,210,738	1,230,784	(20,046)
Total	<u>\$9,772,364</u>	<u>\$5,447,364</u>	<u>\$4,325,000</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007***

Unaudited

General Fund – The District's General Fund balance increase was due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2007	2006	Increase
	Revenues	Revenues	(Decrease)
Taxes	\$10,665,174	\$8,228,531	\$2,436,643
Tuition	342,933	354,215	(11,282)
Transportation Fees	11,072	37,488	(26,416)
Investment Earnings	414,743	246,825	167,918
Extracurricular Activities	12,878	16,884	(4,006)
Class Materials and Fees	118,397	4,015	114,382
Intermediate Sources	26,124	19,548	6,576
Intergovernmental - State	8,852,168	8,169,667	682,501
All Other Revenue	271,478	22,211	249,267
Total	\$20,714,967	\$17,099,384	\$3,615,583

General Fund revenues in 2007 increased by 21.0% mostly due to increased tax collections from income taxes.

	2007	2006	Increase
	Expenditures	Expenditures	(Decrease)
Instruction	\$9,819,740	\$9,362,660	\$457,080
Supporting Services:			
Pupils	840,209	888,978	(48,769)
Instructional Staff	564,832	628,574	(63,742)
Board of Education	17,848	15,907	1,941
Administration	1,459,576	1,511,474	(51,898)
Fiscal Services	529,740	525,242	4,498
Business	4,955	1,654	3,301
Operation and Maintenance of Plant	1,640,696	1,775,506	(134,810)
Pupil Transportation	1,097,509	1,194,878	(97,369)
Central	79,311	79,949	(638)
Community Service	0	0	0
Extracurricular Activities	400,512	351,991	48,521
Capital Outlay	50,154	11,971	38,183
Debt Service			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total	\$16,505,082	\$16,348,784	\$156,298

The expenditures increased by \$156,298 compared to the prior year mostly due to increased salary and supplies costs.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

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 2007, the District amended its General Fund budget several times, none significant.

General Fund budget basis revenue was \$19.0 million, which was above original budget estimate of \$17.7 million. The District amended the budget to account for higher tax collections. The General Fund had an adequate fund balance to cover expenditures.

Bond Retirement Fund - The District's Bond Retirement fund balance increased by \$144,220, or 13.8%. High premiums on the bond refunding contributed to the increased fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the District had \$33,603,972 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. Of this total, \$33,446,702 was related to governmental activities and \$157,270 to the business-type activities. The following tables show fiscal year 2007 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
	Land	\$606,919	\$606,919
Land Improvements	1,407,561	1,407,561	0
Buildings and Improvements	31,601,973	31,601,973	0
Machinery and Equipment	5,248,216	5,065,442	182,774
Vehicles	1,601,079	1,546,641	54,438
Less: Accumulated Depreciation	(7,019,046)	(6,046,646)	(972,400)
Totals	\$33,446,702	\$34,181,890	(\$735,188)

	Business-Type Activities		Increase (Decrease)
	2007	2006	
	Land	\$2,500	\$2,500
Buildings	162,766	162,766	0
Machinery and Equipment	237,995	240,495	(2,500)
Less: Accumulated Depreciation	(245,991)	(239,121)	(6,870)
Totals	\$157,270	\$166,640	(\$9,370)

The increase occurred in machinery and equipment. These increases can be attributed to the purchase of new computers and related equipment.

Additional information on the District's capital assets can be found in Note 6.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

Unaudited

Debt

At June 30, 2007, the District had \$28.6 million in bonds outstanding, \$610,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2007:

	<u>2007</u>	<u>2006</u>
Governmental Activities:		
General Obligation Bonds:		
Serial Bonds	\$20,760,000	\$10,430,000
Term Bonds	5,995,000	16,990,000
Capital Appreciation Bonds	1,584,985	1,249,985
Premium	1,397,545	0
Deferred Loss on Refunding	(1,143,837)	(18,000)
Total General Obligation Bonds	<u>28,593,693</u>	<u>28,651,985</u>
Interest Accretion	674,232	492,587
Compensated Absences	<u>1,544,501</u>	<u>1,515,806</u>
Total Governmental Activities	30,812,426	30,660,378
Business-Type Activities:		
Compensated Absences	<u>21,998</u>	<u>22,955</u>
Totals	<u><u>\$30,834,424</u></u>	<u><u>\$30,683,333</u></u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2007, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 8.

ECONOMIC FACTORS

A challenge facing the District is the future of state funding. As a result of the DeRolph decision and subsequent court decisions, the District is unable to determine what effect, if any, a future decision will have on its future state funding and its financial operations.

In conclusion, the Eaton Community School District's management has committed itself to financial prudence in the years to come.

REQUESTS FOR INFORMATION

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 questions about this report or need additional financial information contact Priscilla Dodson, Treasurer of Eaton Community School District.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2007***

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 3,401,156	\$ 39,683	\$ 3,440,839
Investments	4,322,950	64,598	4,387,548
Receivables:			
Taxes	10,508,147	0	10,508,147
Accounts	121,987	0	121,987
Intergovernmental	10,184	0	10,184
Interest	34,638	0	34,638
Inventory of Supplies at Cost	73,545	10,018	83,563
Restricted Assets:			
Cash and Cash Equivalents	837,882	0	837,882
Unamortized Bond Issuance Costs	262,384	0	262,384
Capital Assets not Being Depreciated	606,919	0	606,919
Capital Assets being Depreciated, Net	32,839,783	157,270	32,997,053
Total Assets	53,019,575	271,569	53,291,144
Liabilities:			
Accounts Payable	111,374	957	112,331
Accrued Wages and Benefits	1,373,207	57,961	1,431,168
Intergovernmental Payable	437,238	35,434	472,672
Deferred Revenue - Taxes	7,165,902	0	7,165,902
Accrued Interest Payable	97,336	0	97,336
Long Term Liabilities:			
Due Within One Year	689,854	0	689,854
Due in More Than One Year	30,122,572	21,998	30,144,570
Total Liabilities	39,997,483	116,350	40,113,833
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,853,009	157,270	5,010,279
Restricted For:			
Capital Projects	1,014,870	0	1,014,870
Debt Service	1,175,313	0	1,175,313
Other Purposes	791,845	0	791,845
Unrestricted (Deficit)	5,187,055	(2,051)	5,185,004
Total Net Assets	\$ 13,022,092	\$ 155,219	\$ 13,177,311

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Activities **For the Fiscal Year Ended June 30, 2007**

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 11,279,880	\$ 461,330	\$ 1,049,603
Support Services:			
Pupils	844,884	0	8,020
Instructional Staff	629,707	0	20,217
Board of Education	17,848	0	0
Administration	1,572,317	0	21,450
Fiscal Services	583,280	0	0
Business	4,955	0	0
Operation and Maintenance of Plant	1,823,805	15,082	0
Pupil Transportation	1,212,265	11,072	17,490
Central	87,386	0	7,584
Community Services	3,067	0	0
Extracurricular Activities	774,918	362,622	0
Interest and Fiscal Charges	1,437,369	0	0
Total Governmental Activities	<u>20,271,681</u>	<u>850,106</u>	<u>1,124,364</u>
Business-Type Activities:			
Food Service	842,137	554,694	285,983
Total Business-Type Activities	<u>842,137</u>	<u>554,694</u>	<u>285,983</u>
Totals	<u>\$ 21,113,818</u>	<u>\$ 1,404,800</u>	<u>\$ 1,410,347</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

Income Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (9,768,947)	\$ 0	\$ (9,768,947)
(836,864)	0	(836,864)
(609,490)	0	(609,490)
(17,848)	0	(17,848)
(1,550,867)	0	(1,550,867)
(583,280)	0	(583,280)
(4,955)	0	(4,955)
(1,808,723)	0	(1,808,723)
(1,183,703)	0	(1,183,703)
(79,802)	0	(79,802)
(3,067)	0	(3,067)
(412,296)	0	(412,296)
(1,437,369)	0	(1,437,369)
(18,297,211)	0	(18,297,211)
0	(1,460)	(1,460)
0	(1,460)	(1,460)
(18,297,211)	(1,460)	(18,298,671)
7,410,719	0	7,410,719
1,588,606	0	1,588,606
3,239,278	0	3,239,278
8,885,429	0	8,885,429
455,011	0	455,011
391,815	0	391,815
21,970,858	0	21,970,858
3,673,647	(1,460)	3,672,187
9,348,445	156,679	9,505,124
\$ 13,022,092	\$ 155,219	\$ 13,177,311

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Balance Sheet
Governmental Funds
June 30, 2007***

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and Cash Equivalents	\$ 1,509,048	\$ 1,133,022	\$ 758,838	\$ 3,400,908
Investments	3,820,857	0	502,093	4,322,950
Receivables:				
Taxes	8,847,015	1,661,132	0	10,508,147
Accounts	121,987	0	0	121,987
Intergovernmental	0	0	10,184	10,184
Interest	34,638	0	0	34,638
Inventory Held for Resale	73,545	0	0	73,545
Restricted Assets:				
Cash and Cash Equivalents	838,130	0	0	838,130
Total Assets	<u><u>\$ 15,245,220</u></u>	<u><u>\$ 2,794,154</u></u>	<u><u>\$ 1,271,115</u></u>	<u><u>\$ 19,310,489</u></u>
Liabilities:				
Accounts Payable	101,425	0	9,949	111,374
Accrued Wages and Benefits	1,324,187	0	49,020	1,373,207
Intergovernmental Payable	435,830	0	1,408	437,238
Deferred Revenue - Taxes	6,013,927	1,602,379	0	7,616,306
Total Liabilities	<u><u>7,875,369</u></u>	<u><u>1,602,379</u></u>	<u><u>60,377</u></u>	<u><u>9,538,125</u></u>
Fund Balances:				
Reserved for Encumbrances	569,103	0	49,424	618,527
Reserved for Supplies Inventory	73,545	0	0	73,545
Reserved for Debt Service	0	1,133,022	0	1,133,022
Reserved for Property Taxes	201,309	58,753	0	260,062
Statutory Reserves	838,130	0	0	838,130
Unreserved, Undesignated in:				
General Fund	5,687,764	0	0	5,687,764
Special Revenue Funds	0	0	146,444	146,444
Capital Projects Funds	0	0	1,014,870	1,014,870
Total Fund Balances	<u><u>7,369,851</u></u>	<u><u>1,191,775</u></u>	<u><u>1,210,738</u></u>	<u><u>9,772,364</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 15,245,220</u></u>	<u><u>\$ 2,794,154</u></u>	<u><u>\$ 1,271,115</u></u>	<u><u>\$ 19,310,489</u></u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2007

Total Governmental Fund Balances \$ 9,772,364

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 33,446,702

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 450,404

Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the funds.

General Obligation Bonds Payable	(28,339,985)	
Premium on Bond Refunding	(1,397,545)	
Interest Accretion	(674,232)	
Deferred Loss on Refundings	1,143,837	
Unamortized Bond Issuance Costs	262,384	
Compensated Absences Payable	(1,544,501)	
Accrued Interest Payable	<u>(97,336)</u>	(30,647,378)

Net Assets of Governmental Activities **\$ 13,022,092**

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 10,665,174	\$ 1,579,492	\$ 0	\$ 12,244,666
Tuition	342,933	0	0	342,933
Transportation Fees	11,072	0	0	11,072
Investment Earnings	414,743	0	40,268	455,011
Extracurricular Activities	12,878	0	349,744	362,622
Class Materials and Fees	118,397	0	0	118,397
Intermediate Sources	26,124	0	20,000	46,124
Intergovernmental - State	8,852,168	159,104	173,122	9,184,394
Intergovernmental - Federal	0	0	825,399	825,399
All Other Revenue	271,478	0	89,170	360,648
Total Revenue	20,714,967	1,738,596	1,497,703	23,951,266
Expenditures:				
Current:				
Instruction	9,819,740	0	946,037	10,765,777
Supporting Services:				
Pupils	840,209	0	8,524	848,733
Instructional Staff	564,832	0	13,425	578,257
Board of Education	17,848	0	0	17,848
Administration	1,459,576	0	92,236	1,551,812
Fiscal Services	529,740	38,414	0	568,154
Business	4,955	0	0	4,955
Operation and Maintenance of Plant	1,640,696	0	13,764	1,654,460
Pupil Transportation	1,097,509	0	0	1,097,509
Central	79,311	0	7,584	86,895
Community Services	0	0	3,067	3,067
Extracurricular Activities	400,512	0	321,993	722,505
Capital Outlay	50,154	0	111,119	161,273
Debt Service:				
Principal Retirement	0	330,000	0	330,000
Interest and Fiscal Charges	0	1,506,353	0	1,506,353
Total Expenditures	16,505,082	1,874,767	1,517,749	19,897,598
Excess (Deficiency) of Revenues Over Expenditures	4,209,885	(136,171)	(20,046)	4,053,668
Other Financing Sources (Uses):				
Sale of Capital Assets	125	0	0	125
Sale of Bonds	0	23,280,000	0	23,280,000
Premium on Bonds	0	1,458,308	0	1,458,308
Payment to Escrow on Bond Refunding	0	(24,457,917)	0	(24,457,917)
Total Other Financing Sources (Uses)	125	280,391	0	280,516
Net Change in Fund Balance	4,210,010	144,220	(20,046)	4,334,184
Fund Balances at Beginning of Year	3,169,025	1,047,555	1,230,784	5,447,364
Decrease in Inventory Reserve	(9,184)	0	0	(9,184)
Fund Balances End of Year	\$ 7,369,851	\$ 1,191,775	\$ 1,210,738	\$ 9,772,364

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds \$ 4,334,184

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

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

Capital Outlay	279,315	
Depreciation Expense	<u>(1,014,503)</u>	(735,188)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (6,063)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	330,000	
Issuance of General Obligation Refunding Bonds	(23,280,000)	
Retirement of General Obligation Bonds through Refunding	23,280,000	
Premium on Bond Issuance	(1,458,308)	
Deferred Loss on Early Retirement of Debt	1,177,917	
Unamortized Bond Issuance Costs	273,792	
Amortization of Bond Premium	60,763	
Interest Accretion Expense	(181,645)	
Amortization of Unamortized Bond Issuance Costs	(11,408)	
Deferred Loss on Early Retirement of Debt	<u>(52,080)</u>	139,031

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (20,438)

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

Compensated Absences	(28,695)	
Change in Inventory	<u>(9,184)</u>	<u>(37,879)</u>

Change in Net Assets of Governmental Activities \$ 3,673,647

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2007***

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Taxes	\$ 8,603,552	\$ 9,084,985	\$ 9,084,985	\$ 0
Tuition	364,708	342,933	342,933	0
Transportation Fees	60,600	15,687	15,687	0
Investment Earnings	250,000	398,335	398,335	0
Extracurricular Activities	18,900	12,878	12,878	0
Class Material and Fees	116,000	118,397	118,397	0
Intermediate Sources	20,000	26,124	26,124	0
Intergovernmental - State	8,133,319	8,852,168	8,852,168	0
All Other Revenues	115,456	155,993	155,993	0
Total Revenues	17,682,535	19,007,500	19,007,500	0
Expenditures:				
Current:				
Instruction	11,317,002	9,985,161	9,985,161	0
Support Services:				
Pupils	1,071,402	836,358	836,358	0
Instructional Staff	796,129	626,602	626,602	0
Board of Education	19,233	17,858	17,858	0
Administration	1,752,258	1,560,803	1,560,803	0
Fiscal Services	623,222	530,589	530,589	0
Business	1,990	4,954	4,954	0
Operation and Maintenance of Plant	2,160,126	1,904,071	1,904,071	0
Pupil Transportation	1,416,532	1,166,549	1,166,549	0
Central	95,603	79,057	79,057	0
Community Services	0	5,753	5,753	0
Extracurricular Activities	405,604	401,144	401,144	0
Capital Outlay	14,438	76,932	76,932	0
Total Expenditures	19,673,539	17,195,831	17,195,831	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,991,004)	1,811,669	1,811,669	0

EATON COMMUNITY SCHOOL DISTRICT, OHIO

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Proceeds from the Sale of Capital Assets	5,000	125	125	0
Transfers In	3,000	0	0	0
Transfers Out	(34,187)	0	0	0
Advances In	250,000	60,000	60,000	0
Advances Out	(189,098)	(60,000)	(60,000)	0
Refund of Prior Year's Receipts	(160)	0	0	0
Total Other Financing Sources (Uses):	34,555	125	125	0
Net Change in Fund Balance	(1,956,449)	1,811,794	1,811,794	0
Fund Balance at Beginning of Year	3,159,693	3,159,693	3,159,693	0
Prior Year Encumbrances	525,158	525,158	525,158	0
Fund Balance at End of Year	\$ 1,728,402	\$ 5,496,645	\$ 5,496,645	\$ 0

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Net Assets
Proprietary Fund
June 30, 2007***

	<u>Business-Type Activities Enterprise Fund</u>
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 39,683
Investments	64,598
Inventory of Supplies at Cost	10,018
<i>Total Current Assets</i>	<u>114,299</u>
<i>Non Current Assets:</i>	
Capital Assets, Net	<u>157,270</u>
Total Assets	<u><u>271,569</u></u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	957
Accrued Wages and Benefits	57,961
Intergovernmental Payable	35,434
<i>Total Current Liabilities</i>	<u>94,352</u>
<i>Long Term Liabilities:</i>	
Compensated Absences Payable	<u>21,998</u>
<i>Total Long Term Liabilities</i>	<u>21,998</u>
Total Liabilities	<u><u>116,350</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	157,270
Unrestricted	<u>(2,051)</u>
Total Net Assets	<u><u>\$ 155,219</u></u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007***

	Business-Type Activities
	<u>Enterprise Fund</u>
Operating Revenues:	
Sales	\$ 552,497
Total Operating Revenues	<u>552,497</u>
Operating Expenses:	
Salaries and Wages	290,950
Fringe Benefits	166,236
Contractual Services	5,045
Supplies and Materials	369,976
Depreciation	9,318
Other Operating Expense	612
Total Operating Expenses	<u>842,137</u>
Operating Loss	(289,640)
Nonoperating Revenue (Expenses):	
Operating Grants	285,983
Investment Earnings	2,249
Loss on Disposal of Capital Assets	(52)
Total Nonoperating Revenues (Expenses)	<u>288,180</u>
Change in Net Assets	(1,460)
Net Assets Beginning of Year	<u>156,679</u>
Net Assets End of Year	<u>\$ 155,219</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2007

	Business-Type Activities
	Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$552,517
Cash Payments for Goods and Services	(294,904)
Cash Payments to Employees for Services and Benefits	(458,704)
Net Cash Used for Operating Activities	(201,091)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	228,313
Net Cash Provided by Noncapital Financing Activities	228,313
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	2,249
Purchase of Investments	(64,598)
Net Cash Provided by Investing Activities	(62,349)
Net Increase in Cash and Cash Equivalents	(35,127)
Cash and Cash Equivalents at Beginning of Year	74,810
Cash and Cash Equivalents at End of Year	\$39,683
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Loss	(\$289,640)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation Expense	9,318
Donated Commodities Used During the Year	80,173
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	20
Decrease in Inventory	474
Increase in Accounts Payable	82
Increase in Accrued Wages and Benefits	2,365
Decrease in Intergovernmental Payables	(2,926)
Decrease in Compensated Absences	(957)
Total Adjustments	88,549
Net Cash Used for Operating Activities	(\$201,091)

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Funds	Agency Funds	Total
Assets:			
Cash and Cash Equivalents	\$ 78,296	\$ 61,917	\$ 140,213
Investments	127,452	0	127,452
Receivables:			
Interest	832	0	832
Capital Assets, Net	2,043	0	2,043
Total Assets	<u>208,623</u>	<u>61,917</u>	<u>270,540</u>
Liabilities:			
Due to Students	0	61,917	61,917
Total Liabilities	<u>0</u>	<u>61,917</u>	<u>61,917</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,043	0	2,043
Held in Trust	206,580	0	206,580
Total Net Assets	<u>\$ 208,623</u>	<u>\$ 0</u>	<u>\$ 208,623</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007***

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Sales	\$ 1,821
Private Donations	9,684
Total Contributions	<u>11,505</u>
Investment Earnings:	
Interest	9,864
Net Increase in the Fair Value of Investments	832
Total Investment Earnings	<u>10,696</u>
Total Additions	<u>22,201</u>
Deductions:	
Administrative Expenses	3,512
Community Gifts, Awards and Scholarships	11,023
Total Deductions	<u>14,535</u>
Change in Net Assets	7,666
Net Assets at Beginning of Year	<u>200,957</u>
Net Assets End of Year	<u><u>\$ 208,623</u></u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Eaton Community School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 88 non-certified and approximately 138 certified teaching personnel and administrative employees providing education to 2,291 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

Eaton Community School District participates in two jointly governed organizations, the Southwestern Ohio Computer Association (SWOCA) and the Southwestern Ohio Educational Purchasing Council (SOEPC). SWOCA provides the data processing services needed by the participating school districts. D. Russell Lee Vocational School serves as the fiscal agent. SOEPC obtains prices for quality merchandise and services for participating school districts. See Note 11 for additional information.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the basic financial statements.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types are used by the District:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the District's major governmental funds:

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

Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

Proprietary Funds - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary 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 therefore not available to support the District’s own programs. The District’s two trust funds are private-purpose trusts that account for scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise 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. Fiduciary funds are reported by fund type.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Revenue considered susceptible to accrual at year-end includes property taxes available for advance, income taxes, tuition, grants, student fees, and interest on investments.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Current property taxes measurable at June 30, 2007, of which are not intended to finance fiscal 2007 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2007 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds and the private-purpose trust fund. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the basis of budgeting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

All funds other than agency funds are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. The primary level of budgetary control is at the fund level. Supplemental budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2007.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

5. Basis of Budgeting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balances (GAAP basis). The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	Net Change in Fund Balance
	<u>General Fund</u>
GAAP Basis (as reported)	\$4,210,010
Increase (Decrease):	
Accrued Revenues	
at June 30, 2007	
received during FY 2008	(2,989,713)
Accrued Revenues	
at June 30, 2006	
received during FY 2007	1,282,246
Accrued Expenditures	
at June 30, 2007	
paid during FY 2008	1,861,442
Accrued Expenditures	
at June 30, 2006	
paid during FY 2007	(1,880,801)
Encumbrances Outstanding	(671,390)
Budget Basis	<u>\$1,811,794</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

During fiscal year 2007, cash and cash equivalents included amounts in demand deposits, short-term certificates of deposit with original maturities of three months or less, and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

The District pools its cash for investment and resource management purposes. The District's cash and cash equivalents represent Star Ohio investment and depository accounts. See Note 3, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts, which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, is recognized as revenue in the financial statements. See Note 3, "Cash, Cash Equivalents and Investments."

The District had invested funds in the State Treasury Asset Reserve of Ohio during 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

H. Inventory

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

On fund financial statements, inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation

The accounting and reporting treatment applied to capital assets is determined by their ultimate use:

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. The District follows the policy of not capitalizing assets with a cost of less than \$500.

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost for assets not purchased in recent years), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	20
Buildings and Improvements	25-90
Machinery and Equipment	5-25
Vehicles	5-10

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Fund, Bond Retirement Fund
Compensated Absences	General Fund, Food Services Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the termination method. Employees may earn 15 days of sick leave per year up to a maximum of 275 days. Upon retirement, certified employees will receive 30% of the accumulated sick leave up to a maximum of 183 days while non-certified employees will receive 25% of the accumulated sick leave up to a maximum of 62 days. For governmental funds, compensated absences are reported as an expenditure in the fund from which the individual earning the leave is paid only if the compensated absences have matured, for example, as a result of employee resignations and retirement. A corresponding liability is reflected in the account "Compensated Absences Payable." There is no such liability for "Compensated Absences Payable" for the 2006 fiscal year. In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

N. Interfund Transactions

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

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the District for the acquisition of textbooks, instructional materials and capital assets, and to create a reserve for budget stabilization.

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for property taxes, supplies inventory, debt service, and encumbered amounts which have not been accrued at year end. In addition, fund balances are reserved by statute for budget stabilization, and for the purchase of textbooks, instructional materials and capital acquisitions.

Q. Estimates

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

R. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are sales for food service and tuition and fees for uniform school supplies. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 2 – ACCOUNTABILITY

Fund Deficit - The respective fund deficits at June 30, 2007 of \$2,695 in the Title I Fund, and \$205 in the Title VI-R Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis, which are greater than expenditures recognized on the budgetary basis. A deficit did not exist in these funds under the cash basis of accounting.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$8,693,324 and the bank balance was \$8,815,093. Not included in the bank balance is \$435, which represents cash on hand held by the District. Federal depository insurance covered \$201,531 of the bank balance and \$8,613,562 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's collateral pool not in the District's name	\$4,326,485
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>4,287,077</u>
Total Balance	<u><u>\$8,613,562</u></u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments

The District's investments at June 30, 2007 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>		
			<u>less than 1</u>	<u>1-3</u>	<u>3-5</u>
STAR Ohio	<u>\$240,610</u>	AAAm ¹	<u>\$240,610</u>	<u>\$0</u>	<u>\$0</u>
Total Investments	<u><u>\$240,610</u></u>		<u><u>\$240,610</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

¹ Standard & Poor's

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$4,418,934	\$4,515,000
Certificates of Deposit (with maturities of less than 3 months)	4,515,000	(4,515,000)
STAR Ohio	<u>(240,610)</u>	<u>240,610</u>
Per GASB Statement No. 3	<u><u>\$8,693,324</u></u>	<u><u>\$240,610</u></u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2007 were levied after October 1, 2006 on assessed values as of January 1, 2006, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2005. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Eaton Community School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values upon which the fiscal year 2007 receipts were based are:

	2006 Second Half Collections	2007 First Half Collections
Agricultural/Residential and Other Real Estate	\$248,079,740	\$252,047,280
Public Utility Personal	8,938,160	8,611,110
Tangible Personal Property	40,764,316	30,439,807
Total Assessed Value	<u>\$297,782,216</u>	<u>\$291,098,197</u>
Tax rate per \$1,000 of assessed valuation	\$40.88	\$38.30

NOTE 5 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, interest, accounts receivable and intergovernmental receivables.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 6 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2007:

Historical Cost:

Class	June 30, 2006	Additions	Deletions	June 30, 2007
Capital assets not being depreciated:				
Land	\$606,919	\$0	\$0	\$606,919
Capital assets being depreciated:				
Land Improvements	1,407,561	0	0	1,407,561
Buildings and Improvements	31,601,973	0	0	31,601,973
Machinery and Equipment	5,065,442	186,115	(3,342)	5,248,215
Vehicles	1,546,641	93,200	(38,762)	1,601,079
Total Cost	<u>\$40,228,536</u>	<u>\$279,315</u>	<u>(\$42,104)</u>	<u>\$40,465,747</u>

Accumulated Depreciation:

Class	June 30, 2006	Additions	Deletions	June 30, 2007
Land Improvements	(\$76,276)	(\$76,277)	\$0	(\$152,553)
Buildings and Improvements	(2,213,638)	(394,105)	0	(2,607,743)
Machinery and Equipment	(2,852,388)	(411,164)	3,342	(3,260,210)
Vehicles	(904,344)	(132,957)	38,762	(998,539)
Total Depreciation	<u>(\$6,046,646)</u>	<u>(\$1,014,503) *</u>	<u>\$42,104</u>	<u>(\$7,019,045)</u>
Net Value:	<u>\$34,181,890</u>			<u>\$33,446,702</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$590,306
Support Services:	
Pupils	7,875
Instructional Staff	47,024
Administration	31,547
Fiscal Services	5,286
Operations & Maintenance of Plant	162,620
Pupil Transportation	117,906
Central	491
Extracurricular Activities	51,448
Total Depreciation Expense	<u>\$1,014,503</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 6 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at June 30, 2007:

Historical Cost:

<u>Class</u>	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
<i>Capital assets not being depreciated:</i>				
Land	\$2,500	\$0	\$0	\$2,500
<i>Capital assets being depreciated:</i>				
Buildings	162,766	0	0	162,766
Machinery and Equipment	240,495	0	(2,500)	237,995
Total Cost	<u>\$405,761</u>	<u>\$0</u>	<u>(\$2,500)</u>	<u>\$403,261</u>

Accumulated Depreciation:

<u>Class</u>	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Buildings	(\$42,986)	(\$2,640)	\$0	(\$45,626)
Machinery and Equipment	(196,135)	(6,678)	2,448	(200,365)
Total Depreciation	<u>(\$239,121)</u>	<u>(\$9,318)</u>	<u>\$2,448</u>	<u>(\$245,991)</u>

<i>Net Value:</i>	<u>\$166,640</u>			<u>\$157,270</u>
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EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 7- DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2007, 10.68% was allocated to fund the pension benefit and 3.32% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2007, 2006, and 2005 were \$323,772, \$357,564, and \$328,200, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. The portion of the 2007 employer contribution rate that was used to fund health care for the year 2007 was 3.32%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2007, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund health care benefits, including the surcharge amounted to \$75,900.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 7- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (SERS of Ohio)

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2006 were \$158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 7- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2006, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2007, 2006, and 2005 were \$1,075,716, \$1,080,972, and \$1,098,368, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2006, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$76,214 for the District. The balance of the Health Care Stabilization Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, the net health care costs paid by STRS were \$282,743,000. There were 119,184 eligible benefit recipients.

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 8 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the bonds and compensated absences of the District for the year ended June 30, 2007 is as follows:

		Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007	Amount Due Within One Year	
Governmental Activities:							
General Obligation Bonds:							
2002	School Improvement						
	Serial Bonds	4.00-4.25%	\$9,575,000	\$0	(\$6,485,000)	\$3,090,000	\$325,000
	Term Bonds	5.00%	16,990,000	0	(16,990,000)	0	0
	Capital Appreciation Bonds	8.26%	1,249,985	0	0	1,249,985	0
	Net 2002 Bonds		27,814,985	0	(23,475,000)	4,339,985	325,000
2005	School Improvement Refunding	2.50-5.00%	855,000	0	(135,000)	720,000	135,000
	Deferred Loss on Refunding		(18,000)	0	3,000	(15,000)	0
	Net 2005 Refunding Bonds		837,000	0	(132,000)	705,000	135,000
2007	School Improvement Refunding Series						
	Serial Bonds		0	16,950,000	0	16,950,000	150,000
	Term Bonds		0	5,995,000	0	5,995,000	0
	Capital Appreciation Bonds		0	335,000	0	335,000	0
	Premium on Bond Refunding		0	1,458,308	(60,763)	1,397,545	0
	Deferred Loss on Refunding		0	(1,177,917)	49,080	(1,128,837)	0
	Net 2007 Refunding Bonds		0	23,560,391	(11,683)	23,548,708	150,000
	Total General Obligation Bonds		28,651,985	23,560,391	(23,618,683)	28,593,693	610,000
2002	Interest Accretion	8.26%	492,587	146,978	0	639,565	0
2007	Interest Accretion	8.26%	0	34,667	0	34,667	0
	Total Interest Accretion		492,587	181,645	0	674,232	0
	Compensated Absences		1,515,806	409,866	(381,171)	1,544,501	79,854
	Total Governmental Activities		30,660,378	24,151,902	(23,999,854)	30,812,426	689,854
Business-Type Activities:							
	Compensated Absences		22,955	4,096	(5,053)	21,998	0
	Total Long-Term Obligations		\$30,683,333	\$24,155,998	(\$24,004,907)	\$30,834,424	\$689,854

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 8 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2007 follows:

Years	General Obligation Bonds (Includes Serial, Term, and Capital Appreciation Bonds)		
	Principal	Interest	Total
2008	\$610,000	\$1,111,281	\$1,721,281
2009	585,000	1,090,167	1,675,167
2010	660,000	1,069,450	1,729,450
2011	715,000	1,042,188	1,757,188
2012	775,000	1,011,006	1,786,006
2013-2017	2,654,985	7,084,946	9,739,931
2018-2022	3,300,000	7,889,380	11,189,380
2023-2027	10,310,000	2,993,046	13,303,046
2028-2030	8,730,000	571,627	9,301,627
Totals	<u>\$28,339,985</u>	<u>\$23,863,091</u>	<u>\$52,203,076</u>

B. Defeasance of General Obligation Debt

In February of 2005, the District issued \$1,000,000 of School Improvement Refunding General Obligation Bonds to defease the \$1,000,000 of General Obligation Bonds for School Improvements dated November 1, 1989.

The net proceeds of the 2005 School Improvement General Obligation Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts, which including interest earned, was and will be used to pay the principal and interest on the refunded bonds. The refunded General Obligation Bonds, which have a balance of \$755,000 at June 30, 2006, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advanced refunding.

In November of 2006, the District current refunded \$23,280,000 of the General Obligation Bonds for School Improvements, dated April 1, 2002, through the issuance of \$23,280,000 of General Obligation Bonds. The District reduced its aggregate debt service payments over the life of the refunded bonds by \$199,027 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$850,395.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 9 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2007, the reserve activity (cash-basis) was as follows:

	Textbook Reserve	Capital Acquisition Reserve	Budget Stabilization Reserve	Total
Set-aside Cash Balance as of June 30, 2006	\$105,829	\$629,068	\$43,754	\$778,651
Current Year Set-Aside Requirement	336,332	336,332	0	672,664
Qualifying Disbursements	<u>(398,509)</u>	<u>(170,922)</u>	<u>(43,754)</u>	<u>(613,185)</u>
Total	<u>\$43,652</u>	<u>\$794,478</u>	<u>\$0</u>	<u>\$838,130</u>
Cash Balance Carried Forward to FY 2008	<u>\$43,652</u>	<u>\$794,478</u>	<u>\$0</u>	<u>\$838,130</u>
Amount Restricted for Textbooks				\$43,652
Amount Restricted for Capital Acquisition				794,478
Amount Restricted for Budget Stabilization				<u>0</u>
Total Restricted Assets				<u>\$838,130</u>

NOTE 10 - RISK MANAGEMENT

A. Public Entity Risk Pool

Preble County Schools Regional Council of Governments - Eaton Community School District participates in the Preble County Regional Council of Governments (COG). The Preble County Schools Regional Council of Governments, a public entity risk pool, was formed by five local school districts and the Preble County Educational Service Center to provide medical benefits to school district participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is provided by Community Mutual. The premium is based on what an insurer estimates will cover the costs of all claims for which the insurer is obligated. If the District's losses exceed its premiums, there is no individual supplemental assessment, if the District's losses are low, it will not receive a refund. Therefore, the health insurance risks have been transferred to the COG.

The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to its representation on the committee.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 10 - RISK MANAGEMENT (Continued)

B. Other Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2007, the District contracted with Indiana Insurance Company for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Indiana Insurance Company	General Liability	\$0
Indiana Insurance Company	Business	\$2,500
Indiana Insurance Company	Automobile	\$250 Comprehensive; \$250 Collision
Indiana Insurance Company	Umbrella	\$10,000

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 11 - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA) is a jointly governed organization among a three county consortium of school districts. The jointly governed 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 districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Board consists of one representative from each of the participating 30 school districts. During fiscal year 2007, the District paid \$41,888 to SWOCA.

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member district. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 11 - JOINTLY GOVERNED ORGANIZATION (Continued)

Payments to SOEPC are made from the general fund. During fiscal year 2007, the School District paid \$3,965 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

NOTE 12 – RELATED PARTY TRANSACTIONS

The food service director, Charolette Akers, runs the only banquet facility in town. The name of the banquet facility is Charolette's Banquet Center. During the 2007 fiscal year, the District paid \$212 to Charolette's Banquet Center.

Randy Titkemeyer, teacher, owns TNT Greenhouse. The District paid \$3,184 to TNT Greenhouse during the 2007 fiscal year.

The Cheerleading Advisor, Kathy Stevens, works for the company Varsity Spirit Fashions Cheerleaders and Danzteam. She provides cheer and dance clinics for the company. The School District, through the advisor, paid the company \$8,217 for the fiscal year 2007 for various items for the cheerleading squad.

NOTE 13 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement 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, 2007.

B. Litigation

The District is not a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2007.

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**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program		10.550		\$34,216		\$34,216
Nutrition Cluster:						
National School Breakfast Program	043935-05PU-2007	10.553	\$18,868		\$18,868	
	043935-05PU-2006		5,907		5,907	
			24,775		24,775	
National School Lunch Program	043935 -LLP1-2007	10.555	533		533	
	043935 -LLP1-2006		26		26	
	043935 -LLP4-2007		147,061		147,061	
	043935 -LLP4-2006		47,555		47,555	
			195,175		195,175	
Total Nutrition Cluster			219,950		219,950	
Total U.S. Department of Agriculture			219,950	34,216	219,950	34,216
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	043935-6BSD-2007	84.027	75,000		62,879	
	043935-6BSF-2007	84.027	466,937		466,937	
Special Education - Preschool Grant	043935-PGS1-2007	84.173	5,982		5,982	
	043935-PGS1-2006	84.173	757		757	
Total Special Education Cluster			548,676		536,555	
Grants to Local Educational Agencies (ESEA Title I)	043935 -C1S1-2007	84.010	245,619		215,404	
	043935 -C1S1-2006		36,783		42,647	
Total ESEA Title I			282,402		258,051	
Drug Free Schools	043935-DRS1-2007	84.186	8,020		8,020	
Title II Part D	043935-TJS1-2007	84.318	2,661		2,661	
Innovative Education Program (ESEA Title VI)	043935-C2S1-2007	84.298	3,276		3,276	
Title II Part A	043935-TRS1-2007	84.367	80,020		72,891	
	043935-TRS1-2006		8,427		8,427	
Total Title II Part A			88,447		81,318	
Total U.S. Department of Education			933,482		889,881	
Total			\$ 1,153,432	\$ 34,216	\$ 1,109,831	\$ 34,216

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

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DISTRIBUTION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

Eaton Community School District
Preble County
312 North Barron Street
Eaton, Ohio 45320

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe that the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated March 25, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 25, 2008.

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

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



Mary Taylor, CPA
Auditor of State

March 25, 2008



Mary Taylor, CPA

Auditor of State

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

Eaton Community School District
Preble County
312 North Barron Street
Eaton, Ohio 45320

To the Board of Education:

Compliance

We have audited the compliance of Eaton Community School District, Preble County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Eaton Community 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, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

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



Mary Taylor, CPA
Auditor of State

March 25, 2008

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. 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)?	Yes
(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 § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I – CFDA #84.010 Special Education Cluster: CFDA #84.027 & #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2007-001

Noncompliance and Significant Deficiency

Ohio Rev. Code, Section 149.351, provides that no public records shall be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or part, except as provided by law or under the rules adopted by the records commission provided under Ohio Rev. Code Sections 149.38 to 149.42.

The amount deposited for the FFA fruit sale was \$12,112. The amount due according to the advisor's tally sheets was \$12,062 and the amount collected according to the duplicate receipts was \$11,625. Order forms may not have been completed or retained for the sale of these extra items. Duplicate receipts were either not issued or not retained for all monies collected. Individual student order forms were not provided for audit.

No documentation was maintained to support Cheerleading activity for the audit period (fund raiser sales, collections for trips, etc.). The advisor did not maintain student order forms for the cookie dough sales. The advisor accounted for student deposits on slips of paper but did not retain that documentation. We were unable to determine the total receipts collected for each fundraiser due to generic receipt descriptions and the mingling of funds. Many receipt descriptions were noted as "cheerleading fundraiser" instead of cookie dough sale. Therefore, we were unable to determine if all money was collected for the fundraisers.

Failure to properly maintain supporting documentation could result in an incomplete record and loss of accountability for project receipts and disbursements, and misappropriation of funds. We recommend that the School District review their current policy. Additional controls and procedures are explained in the Auditor of State (AOS) "Guidelines for Developing Policies for Student Activity Programs available at the AOS web site: www.auditor.state.oh.us, under publications, scroll down to Manuals, Handbooks, Forms & Technical Resources and click on Guidelines for Developing Policies for Student Activity Programs.

Officials' Response:

We did not receive a response from Officials to the finding reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

EATON COMMUNITY SCHOOL DISTRICT

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2008**