



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2011
Fiscal Year Audited Under GAGAS: 2011



Dave Yost • Auditor of State

Board of Education
Eastern Local School District
P. O. Box 500
Sardinia, Ohio 45171

We have reviewed the *Independent Auditor's Report* of the Eastern Local School District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 27, 2012

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Eastern Local School District, Brown County
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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Board of Education
Eastern Local School District
P.O. Box 500
Sardinia, Ohio 45171

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Brown County, Ohio (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

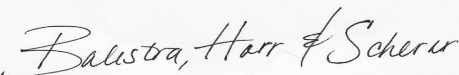
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Brown County, Ohio as of June 30, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Schedule of Federal Awards Receipts and Expenditures provides additional information 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. The Schedule of Federal Awards Receipts and Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 19, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.



Balestra, Harr & Scherer, CPAs, Inc.
January 27, 2012

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of Eastern Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2011 are as follows:

- Net assets of governmental activities increased \$694,789.
- General revenues accounted for \$12,360,129 in revenue or 79% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions, accounted for \$3,301,995, or 21% of total revenues of \$15,662,124.
- The School District had \$14,967,335 in expenses related to governmental activities; only \$3,301,995 of these expenses were offset by program specific charges for services and sales, grants, and contributions.
- The School District has three major funds: the General Fund, the Bond Retirement Fund, and the Classroom Facilities Fund. All governmental funds had total revenues of \$20,223,958 and expenditures of \$22,716,863. The most significant change in fund balance was in the Classroom Facilities Fund.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

In the statement of net assets and the statement of activities, the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2011 compared to 2010.

Table 1
Net Assets

	Governmental Activities	
	2011	2010
Assets		
Current and Other Assets	\$ 12,116,645	\$ 19,341,657
Capital Assets, Net	46,429,097	39,010,227
Total Assets	58,545,742	58,351,884
Liabilities		
Long-term Liabilities	9,262,727	9,596,711
Current and Other Liabilities	4,663,837	4,830,784
Total Liabilities	13,926,564	14,427,495
Net Assets		
Invested in Capital Assets, Net of Related Debt	38,144,097	30,365,227
Restricted	6,196,562	14,093,116
Unrestricted (Deficit)	278,519	(533,954)
Total Net Assets	\$ 44,619,178	\$ 43,924,389

Current and other assets decreased \$7,225,012. This decrease is primarily due to a decrease to intergovernmental receivable as a result of monies received from the Ohio School Facilities Commission (OSFC) project in the prior year in addition to a decrease in cash on hand due to monies spent for the project. Capital assets increased as a result of current year additions as a result of the construction in progress from the OSFC project, which were partially offset by current year depreciation and deletions. Long-term liabilities decreased primarily due to principal payments on outstanding debt. Current and other liabilities decreased due to decreases in accrued wages and benefits, accounts payable, and unearned revenue, which was partially offset by an increase in retainage payable.

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2011 and 2010.

Table 2
Changes in Net Assets

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Revenues		
Program Revenues		
Charges for Services and Sales	1,035,436	\$ 1,161,161
Operating Grants and Contributions	2,266,559	2,181,055
Total Program Revenues	<u>3,301,995</u>	<u>3,342,216</u>
General Revenues		
Property Taxes	4,075,387	3,721,696
Payments in Lieu of Taxes	53,380	55,617
Grants and Entitlements, Not Restricted to Specific Programs	7,338,385	7,669,419
Grants and Entitlements, Restricted for Classroom Facilities	787,117	7,743,402
Investment Earnings	6,301	31,412
Gifts and Donations, Not Restricted to Specific Programs	19,538	24,907
Miscellaneous	80,021	133,960
Total General Revenues	<u>12,360,129</u>	<u>19,380,413</u>
Total Revenues	<u>15,662,124</u>	<u>22,722,629</u>
Program Expenses		
Instruction:		
Regular	5,739,976	6,180,846
Special	1,552,107	1,597,908
Vocational	178,744	180,170
Other	1,113,149	1,016,105
Support Services:		
Pupils	376,812	414,736
Instructional Staff	898,064	1,106,431
Board of Education	23,896	23,382
Administration	1,040,721	1,005,931
Fiscal	425,922	425,131
Business	-	1,315
Operation and Maintenance of Plant	1,330,472	1,218,285
Pupil Transportation	1,058,259	984,180
Central	36,076	32,375
Operation of Non-Instructional Services	592,912	626,065
Extracurricular Activities	198,258	210,099
Interest and Fiscal Charges	401,967	419,379
Total Expenses	<u>14,967,335</u>	<u>15,442,338</u>
Special Item - Loss on Sale of School Building	-	(830,825)
Increase (Decrease) in Net Assets	694,789	6,449,466
Net Assets, Beginning of Year	<u>43,924,389</u>	<u>37,474,923</u>
Net Assets, End of Year	<u>\$ 44,619,178</u>	<u>\$ 43,924,389</u>

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Grants and entitlements restricted for classroom facilities projects decreased as a result of OSFC project monies received in the prior fiscal year. Investment earnings decreased, which resulted from lower cash in banks, due primarily to the payment of the significant portion of OSFC funding, and lower interest rates. Regular instruction and instructional staff decreased, as a result of a reduction in staff. Pupil Transportation increased due to the addition of a bus route and increase fuel costs.

Governmental Activities

General revenues of \$12,360,129 provide 79% of total revenues. Of this total, property taxes make up 26% and grants and entitlements make up 52% of total general revenues.

As indicated by governmental program expenses, instruction is emphasized. Regular instruction comprised 38% of governmental program expenses with special instruction comprising 10% of governmental expenses.

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

Table 3
 Governmental Activities

	<u>Total Cost of Services</u> 2011	<u>Net Cost of Services</u> 2011	<u>Total Cost of Services</u> 2010	<u>Net Cost of Services</u> 2010
Instruction	\$ 8,583,976	\$ 6,789,737	\$ 8,975,029	\$ 7,201,010
Support Services	5,190,222	4,646,369	5,211,766	4,621,581
Operation of Non-Instructional Services	592,912	(152,969)	626,065	(174,812)
Extracurricular Activities	198,258	51,916	210,099	32,964
Interest and Fiscal Charges	401,967	330,287	419,379	419,379
Total	<u>\$ 14,967,335</u>	<u>\$ 11,665,340</u>	<u>\$ 15,442,338</u>	<u>\$ 12,100,122</u>

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had \$11,227,816 in revenues and \$10,325,133 in expenditures resulting in an increase in fund balance of \$902,683. The increase is primarily due to a decrease in regular instruction from the prior year. The Bond Retirement Fund had \$843,864 in revenues and \$789,003 in expenditures resulting in an increase of fund balances of \$54,861. The Classroom Facilities Fund had \$5,374,558 in revenues and \$8,738,450 in expenditures resulting in a fund balance decrease of \$3,363,892. This decrease is due primarily to expenditures made of monies received in the prior year for the OSFC construction project.

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal year 2011, the School District did not amend its General Fund budget. Actual total revenues and other financing sources were \$113,054 below the final budget of \$11,378,689. The variance is primarily due to less than anticipated intergovernmental revenue and interest received. Actual total expenditures and other financing uses were \$1,300,927 below the final budget of \$11,791,625. The variance is due primarily to a decrease in budgeted expenditures for regular instruction as a result of conservative budgeting by the School District. The General Fund's ending unobligated cash balance was \$1,426,815; \$1,187,873 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the School District had \$46,429,097 invested in its capital assets. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2011 balances compared to 2010.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2011	2010
Land	\$ 271,526	\$ 271,526
Construction in Progress	9,858,175	1,402,985
Land Improvements	13,976	17,838
Buildings and Improvements	33,935,448	34,753,325
Furniture and Equipment	2,172,085	2,340,772
Vehicles	177,887	223,781
Totals	\$ 46,429,097	\$ 39,010,227

Changes in capital assets from the prior year primarily resulted from current year additions which were partially offset by depreciation and deletions.

Debt

At June 30, 2011, the School District had general obligation bonds outstanding (including premiums) of \$8,437,050. The bonds were issued for the purpose of constructing, remodeling, reconstructing and adding to school buildings. For additional information on debt, see Note 11 to the basic financial statements.

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Eastern Local School District, Brown County
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 6,586,406
Accounts Receivable	18,384
Intergovernmental Receivable	1,008,943
Taxes Receivable	4,147,099
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Investments	266,394
Unamortized Financing Costs	89,419
Non-Depreciable Capital Assets	10,129,701
Depreciable Capital Assets, net	36,299,396
<i>Total Assets</i>	58,545,742
 LIABILITIES:	
Current Liabilities:	
Accounts Payable	2,645
Accrued Wages and Benefits Payable	1,039,054
Retainage Payable	226,805
Intergovernmental Payable	327,296
Accrued Interest Payable	33,084
Matured Compensated Absences Payable	68,513
Unearned Revenue	2,966,440
Non-Current Liabilities:	
Long-Term Liabilities:	
Due Within One Year	552,800
Due in More Than One Year	8,709,927
<i>Total Liabilities</i>	13,926,564
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	38,144,097
Restricted for Debt Service	1,106,849
Restricted for Capital Outlay	4,592,900
Restricted for Classroom Facilities Maintenance	326,422
Restricted for Other Purposes	170,391
Unrestricted (Deficit)	278,519
<i>Total Net Assets</i>	\$ 44,619,178

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

Eastern Local School District, Brown County
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$ 5,739,976	\$ 253,246	\$ 667,604	\$ (4,819,126)
Special	1,552,107	55,490	587,926	(908,691)
Vocational	178,744	11,374	-	(167,370)
Other	1,113,149	61,145	157,454	(894,550)
Support Services:				
Pupils	376,812	24,892	-	(351,920)
Instructional Staff	898,064	49,389	118,022	(730,653)
Board of Education	23,896	1,584	-	(22,312)
Administration	1,040,721	68,358	6,431	(965,932)
Fiscal	425,922	26,184	5,523	(394,215)
Operation and Maintenance of Plant	1,330,472	58,874	78,706	(1,192,892)
Pupil Transportation	1,058,259	64,923	38,576	(954,760)
Central	36,076	2,391	-	(33,685)
Operation of Non-Instructional Services	592,912	271,268	474,613	152,969
Extracurricular Activities	198,258	86,318	60,024	(51,916)
Interest and Fiscal Charges	401,967	-	71,680	(330,287)
Total Governmental Activities	\$ 14,967,335	\$ 1,035,436	\$ 2,266,559	(11,665,340)
General Revenues:				
Property Taxes Levied for:				
General Purposes				3,139,112
Building Maintenance				57,542
Debt Service				732,274
Permanent Improvement				146,459
Grants and Entitlements not Restricted to Specific Programs				7,338,385
Gifts and Donations not Restricted to Specific Programs				19,538
Grants and Entitlements Restricted for Classroom Facilities				787,117
Investment Earnings				6,301
Payments in Lieu of Taxes				53,380
Miscellaneous				80,021
Total General Revenues				12,360,129
Change in Net Assets				694,789
Net Assets Beginning of Year				43,924,389
Net Assets End of Year				\$ 44,619,178

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

Eastern Local School District, Brown County
Balance Sheet
Governmental Funds
June 30, 2011

	General	Bond Retirement	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
ASSETS:					
Equity in Pooled Cash and Investments	\$ 1,454,600	\$ 884,227	\$ 3,268,900	\$ 978,679	\$ 6,586,406
Accounts Receivable	17,384	-	-	1,000	18,384
Intergovernmental Receivable	279	-	874,964	133,700	1,008,943
Taxes Receivable	3,124,425	822,269	-	200,405	4,147,099
Restricted Assets:					
Equity in Pooled Cash and Investments	39,589	-	226,805	-	266,394
<i>Total Assets</i>	<u>\$ 4,636,277</u>	<u>\$ 1,706,496</u>	<u>\$ 4,370,669</u>	<u>\$ 1,313,784</u>	<u>\$ 12,027,226</u>
LIABILITIES:					
Accounts Payable	\$ 2,645	-	-	-	\$ 2,645
Accrued Wages and Benefits Payable	827,369	-	-	211,685	1,039,054
Retainage Payable	-	-	226,805	-	226,805
Intergovernmental Payable	278,081	-	-	49,215	327,296
Matured Compensated Absences Payable	68,513	-	-	-	68,513
Deferred Revenue	2,454,187	659,207	874,964	453,435	4,441,793
<i>Total Liabilities</i>	<u>3,630,795</u>	<u>659,207</u>	<u>1,101,769</u>	<u>714,335</u>	<u>6,106,106</u>
FUND BALANCES:					
Restricted	39,589	1,047,289	3,268,900	670,377	5,026,155
Assigned	65,812	-	-	-	65,812
Unassigned	900,081	-	-	(70,928)	829,153
<i>Total Fund Balances</i>	<u>1,005,482</u>	<u>1,047,289</u>	<u>3,268,900</u>	<u>599,449</u>	<u>5,921,120</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,636,277</u>	<u>\$ 1,706,496</u>	<u>\$ 4,370,669</u>	<u>\$ 1,313,784</u>	<u>\$ 12,027,226</u>

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

Eastern Local School District, Brown County
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2011*

Total Governmental Fund Balances		\$ 5,921,120
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		46,429,097
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Unamortized Financing Costs	89,419	
Taxes	319,249	
Intergovernmental	1,156,104	
Total	1,564,772	1,564,772
Long-term liabilities, including bonds, unamortized bond premium, accrued interest, and the long-term portion of compensated absences and early retirement incentive, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(739,794)	
Early Retirement Incentive	(85,883)	
General Obligation Bonds	(8,285,000)	
Accrued Interest Payable	(33,084)	
Unamortized Bond Premium	(152,050)	
Total	(9,295,811)	(9,295,811)
Net Assets of Governmental Activities		\$ 44,619,178

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

Eastern Local School District, Brown County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Bond Retirement	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property Taxes	\$ 3,119,806	\$ 726,286	\$ -	\$ 202,927	\$ 4,049,019
Intergovernmental	7,284,017	109,109	5,369,342	2,217,795	14,980,263
Interest	127	-	5,216	958	6,301
Tuition and Fees	671,429	-	-	-	671,429
Rent	14,302	-	-	-	14,302
Extracurricular Activities	200	-	-	77,995	78,195
Gifts and Donations	19,538	-	-	-	19,538
Customer Sales and Services	400	-	-	271,110	271,510
Payments in Lieu of Taxes	42,303	8,469	-	2,608	53,380
Miscellaneous	75,694	-	-	4,327	80,021
<i>Total Revenues</i>	<u>11,227,816</u>	<u>843,864</u>	<u>5,374,558</u>	<u>2,777,720</u>	<u>20,223,958</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,776,083	-	-	921,820	4,697,903
Special	835,508	-	-	711,861	1,547,369
Vocational	171,606	-	-	-	171,606
Other	922,482	-	-	190,667	1,113,149
Support Services:					
Pupils	375,537	-	-	-	375,537
Instructional Staff	752,707	-	1,935	144,157	898,799
Board of Education	23,896	-	-	-	23,896
Administration	1,033,259	-	-	5,000	1,038,259
Fiscal	390,912	22,877	-	6,514	420,303
Operation and Maintenance of Plant	889,540	-	-	189,672	1,079,212
Pupil Transportation	988,259	-	-	31,527	1,019,786
Central	36,076	-	-	-	36,076
Operation of Non-Instructional Services	2,405	-	-	574,496	576,901
Extracurricular Activities	125,573	-	-	72,685	198,258
Capital Outlay	1,290	-	8,736,515	15,878	8,753,683
Debt Service:					
Principal	-	360,000	-	-	360,000
Interest	-	406,126	-	-	406,126
<i>Total Expenditures</i>	<u>10,325,133</u>	<u>789,003</u>	<u>8,738,450</u>	<u>2,864,277</u>	<u>22,716,863</u>
<i>Net Change in Fund Balances</i>	902,683	54,861	(3,363,892)	(86,557)	(2,492,905)
<i>Fund Balances at Beginning of Year - As Restated</i>	<u>102,799</u>	<u>992,428</u>	<u>6,632,792</u>	<u>686,006</u>	<u>8,414,025</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,005,482</u>	<u>\$ 1,047,289</u>	<u>\$ 3,268,900</u>	<u>\$ 599,449</u>	<u>\$ 5,921,120</u>

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

Eastern Local School District, Brown County
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011*

Net Change in Fund Balances - Total Governmental Funds \$ (2,492,905)

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

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

Capital Asset Additions	8,508,292	
Current Year Depreciation	(1,082,604)	
Total	7,425,688	7,425,688

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

Loss on Disposal of Capital Assets		(6,818)
------------------------------------	--	---------

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

Taxes	26,368	
Intergovernmental	(4,588,202)	
Total	(4,561,834)	(4,561,834)

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

7,485

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

360,000

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

(4,402)

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

Increase in Compensated Absences	(21,187)	
Increase in Early Retirement Incentive	(12,314)	
Decrease in Accrued Interest Payable	1,076	
Total	(32,425)	(32,425)

Net Change in Net Assets of Governmental Activities

\$ 694,789

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

Eastern Local School District, Brown County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 11,378,689	\$ 11,378,689	\$ 11,265,635	\$ (113,054)
Total Expenditures and Other Financing Uses	<u>11,791,625</u>	<u>11,791,625</u>	<u>10,490,698</u>	<u>1,300,927</u>
Net Change in Fund Balance	(412,936)	(412,936)	774,937	1,187,873
Fund Balance at Beginning of Year	560,253	560,253	560,253	-
Prior Year Encumbrances Appropriated	<u>91,625</u>	<u>91,625</u>	<u>91,625</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 238,942</u>	<u>\$ 238,942</u>	<u>\$ 1,426,815</u>	<u>\$ 1,187,873</u>

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

Eastern Local School District, Brown County
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Investments	<u>\$ 29,830</u>
LIABILITIES:	
Undistributed Monies	<u>\$ 29,830</u>

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 75 square miles. It is located in Brown County and includes the Villages of Macon and Russellville and various townships within the County. It is staffed by 66 non-certified and 84 certified employees providing education to 1,335 students and other community members.

Reporting Entity

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

Governmental Funds

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

General Fund

The General Fund is the general operating fund of the School District and is used to account for all financial resources not accounted for and reported in another fund. The General Fund is available to the School District for any purpose provided it is expended or transferred according to the school laws of Ohio.

Bond Retirement Fund

The Bond Retirement Fund is a debt service fund used to account for the accumulation of financial resources restricted, committed, or assigned for the payment of general long-term debt. The major source of revenue for this fund is tax levy proceeds.

Classroom Facilities Fund

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

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

Fiduciary Funds

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Measurement Focus

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred/Unearned Revenue

Deferred/unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred/unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2011.

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

Cash and Cash Equivalents

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

During fiscal year 2011, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Bank Bonds, and money market funds. Federal Home Loan Bank Bonds are reported at market value.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2011.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, Classroom Facilities Fund, and all other governmental funds during fiscal year 2011 amounted to \$127, \$5,216, and \$958, respectively.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5-20 years
Building and Improvements	30-40 years
Furniture and Equipment	5-20 years
Vehicles	5 years

Compensated Absences

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

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

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

The government-wide statement of net assets reports \$6,196,562 in restricted net assets, none of which is restricted by enabling legislation.

Interfund Activity

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Restricted Assets

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

Restricted assets in the General Fund represent pooled cash and investments whose use is limited by legal requirements. Restricted assets represent amounts required by statute to be set-aside by the School District for textbooks and instructional materials and capital improvements. See Note 15 for additional information regarding set-asides.

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

Estimates

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures (budget basis) rather than as a restriction, commitment, or assignment of fund balance (GAAP basis).

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

Net Change in Fund Balance	
	General
GAAP Basis	\$902,683
Adjustments:	
Revenue Accruals	69,008
Expenditure Accruals	(167,773)
Perspective Difference:	
Activity of Funds Reclassified for GAAP Reporting Purposes	585
Encumbrances	(29,566)
Budget Basis	\$774,937

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

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

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2011, the School District's bank balance of \$4,497,418 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Investments: As of June 30, 2011, the School District had the following investments and maturities:

<u>Description:</u>	Fair Value	Investment Maturities (in years)	
		Less than 1	Two to Five
STAR Ohio	\$ 656,128	\$ 656,128	\$ -
Fifth Third Institutional Government Money Market	1,890,198	1,890,198	-
Federal Home Loan Bank Bonds	1,301,052	-	1,301,052
Total Investments	<u>\$ 3,847,378</u>	<u>\$ 2,546,326</u>	<u>\$ 1,301,052</u>

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

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year end, the School District's investments were limited to STAR Ohio, Federal Home Loan Bank Bonds, and Money Market Funds. Investments in STAR Ohio were rated AAAM by Standard & Poor's. The Fifth Third Institutional Government Money Market and Federal Home Loan Bank Bonds were rated AAAM by Standard & Poor's and Aaa by Moody's. The School District's investment policy does not address credit risk beyond allowing investments as authorized in the Ohio Revised Code.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy allows investments as authorized in the Ohio Revised Code. The School District has invested 49.1% in Fifth Third Institutional Government Money Market, 33.8% in Federal Home Loan Bank Bonds, and 17.1% in STAR Ohio.

Custodial credit risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's securities are either insured and registered in the name of the School District or at least registered in the name of the School District. Of the School District's investment in money market funds, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District. The School District's investment policy does not address custodial credit risk beyond the requirements of the Ohio Revised Code.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2009 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after April 1, 2010, on the value as of December 31, 2010. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 137,925,270	94.49%	\$ 153,552,790	92.16%
Public Utility	7,131,680	4.89%	12,931,770	7.76%
Tangible Personal Property	915,940	0.63%	138,190	0.08%
Total Assessed Value	<u>\$ 145,972,890</u>	<u>100.00%</u>	<u>\$ 166,622,750</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 40.20		\$ 39.20	

The School District receives property taxes from Adams, Brown and Highland Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011 are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 5 - PROPERTY TAXES (Continued)

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2011, was \$670,238 in the General Fund and \$191,172 in all other governmental funds.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011, consisted of property taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds.

A summary of the intergovernmental receivables follows at June 30, 2011:

	<u>Amounts</u>
Major Funds:	
General	\$ 279
Classroom Facilities	874,964
Total Major Funds	<u>875,243</u>
Non-Major Funds:	
Special Education, IDEA Part B	58,792
Title I	59,112
Improving Teacher Quality, Title II-A	14,896
Title II-D	900
Total Non-Major Funds	<u>133,700</u>
Total Intergovernmental Receivables	<u><u>\$ 1,008,943</u></u>

NOTE 7 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School District contracted with Ohio School Plan for general liability insurance with a \$3,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by the Ohio School Plan in the amount of \$38,988,654. The School District's vehicles are covered by the Ohio School Plan and hold a \$1,000 deductible for buses and \$250 for all other autos for comprehensive and a \$1,000 deductible for buses and \$500 for all other autos for collision with a \$3,000,000 limit on any accident. Violence coverage is provided by the Ohio School Plan with a \$1,000,000 single occurrence and aggregate.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 7 - RISK MANAGEMENT (Continued)

For fiscal year 2011, the School District participated in the Cincinnati USA Regional Chamber Ohio Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService provides administrative, cost control and actuarial services to the GRP.

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Fund. The School District's contributions to SERS which were allocated for pension and death benefits for the fiscal years ended June 30, 2011, 2010 and 2009 were \$248,876, \$307,818, and \$169,279, respectively; 48 percent of the required contribution has been made for fiscal year 2011 and 100 percent of the required contribution has been made for fiscal years 2010 and 2009. \$130,642 represents the unpaid contribution for fiscal year 2011 and is recorded as a liability within the respective funds.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

A. Defined Benefit Pension Plans (Continued)

State Teachers Retirement System

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

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

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

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

A. Defined Benefit Pension Plans (Continued)

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

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

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

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

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

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

For the fiscal years ended June 30, 2011, 2010, and 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$634,485, \$671,012, and \$676,360, respectively; 84 percent of the required contribution has been made for fiscal year 2011 and 100 percent of the required contribution has been made for fiscal years 2010 and 2009. \$99,011 represents the unpaid contribution for fiscal year 2011 and is recorded as a liability within the respective funds.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, no members of the Board of Education had elected Social Security.

C. Postemployment Benefits

State Teachers Retirement System

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

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

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010 and 2009. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$50,152, \$51,719, and \$52,028, and for fiscal years 2011, 2010, and 2009, respectively, which equaled the required allocation for each year.

School Employees Retirement System

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2011, 2010, and 2009, the actuarially required allocations were 0.76, 0.76 percent, and 0.75 percent. For the School District, contributions for the years ended June 30, 2011, 2010, and 2009, were \$16,579, \$15,201, and \$14,545, which equaled the required allocation for each year.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

C. Postemployment Benefits (Continued)

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. At June 30, 2011, 2010, and 2009, the health care allocations were 1.43 percent, 0.46 percent, and 4.16 percent, respectively. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2011, 2010, and 2009 fiscal years equaled \$58,603, \$37,570, and \$107,637, respectively, which equaled the required allocation for each year.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

NOTE 9 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 9 - EMPLOYEE BENEFITS (Continued)

B. Other Employee Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Lincoln National Life. Dental insurance is provided by the School District to all employees through Dental Care Plus. Vision insurance is provided by the School District to all employees through Vision Service Plan.

C. Early Retirement Incentive

The School District offers an Early Retirement Incentive (Super-Severance) program to all certified employees. The employee must retire in the first year they become eligible. For these employees, they must give written notice to the Superintendent by April 1st of the year he/she becomes eligible for “full retirement”.

During fiscal year 2006, the Board approved an incentive which states that if the employee retires, the Board will give them a five year contract and continue to pay all of their benefits. The employee will be placed on step three of their salary schedule. They will be frozen at step three. The employee is eligible for base increases, but they are not eligible for step increases or bonuses such as the personal day or attendance bonus. During March of 2009 the incentive was amended and will expire as of June 30, 2011.

D. Severance Payout Obligation

There were several employees who took advantage of the incentive noted in the second paragraph of C. above. The School district is making their severance payouts over a five year period accordingly. This is reported as a long term obligation in Note 11.

NOTE 10 – CAPITAL ASSETS

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

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 271,526	\$ -	\$ -	\$ 271,526
Construction in Progress	1,402,985	8,455,190	-	9,858,175
Total Capital Assets, Not Being Depreciated	1,674,511	8,455,190	-	10,129,701
Capital Assets Being Depreciated				
Land Improvements	308,955	-	-	308,955
Buildings and Improvements	38,740,701	-	-	38,740,701
Furniture and Equipment	4,079,363	51,102	(58,885)	4,071,580
Vehicles	1,450,808	2,000	-	1,452,808
Total Capital Assets Being Depreciated	44,579,827	53,102	(58,885)	44,574,044
Less: Accumulated Depreciation:				
Land Improvements	(291,117)	(3,862)	-	(294,979)
Buildings and Improvements	(3,987,376)	(817,877)	-	(4,805,253)
Furniture and Equipment	(1,738,591)	(212,971)	52,067	(1,899,495)
Vehicles	(1,227,027)	(47,894)	-	(1,274,921)
Total Accumulated Depreciation	(7,244,111)	(1,082,604)	52,067	(8,274,648)
Total Capital Assets Being Depreciated, Net	37,335,716	(1,029,502)	(6,818)	36,299,396
Governmental Capital Assets, Net	\$ 39,010,227	\$ 7,425,688	\$ (6,818)	\$ 46,429,097

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 10 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$989,771
Special	2,994
Vocational	7,138
Support Services:	
Pupils	1,275
Instructional Staff	8,087
Administration	1,619
Fiscal	1,502
Operation and Maintenance of Plant	7,188
Pupil Transportation	47,249
Operation of Non-Instructional Services	15,781
Total Depreciation Expense	<u>\$1,082,604</u>

NOTE 11 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2011 were as follows:

	Principal Outstanding 06/30/10	Additions	Deductions	Principal Outstanding 06/30/11	Due Within One Year
School Construction/Remodeling Bonds 1995 6.25%	\$ 2,010,000	\$ -	\$ 170,000	\$ 1,840,000	\$ 210,000
Classroom Facilities General Obligation Bonds 2006 4% - 4.75%	6,635,000	-	190,000	6,445,000	200,000
Premium	159,535	-	7,485	152,050	-
Compensated Absences	718,607	793,130	771,943	739,794	114,608
Severance Payout Obligation	73,569	57,691	45,377	85,883	28,192
Total Governmental Activities	<u>\$ 9,596,711</u>	<u>\$ 850,821</u>	<u>\$ 1,184,805</u>	<u>\$ 9,262,727</u>	<u>\$ 552,800</u>

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

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

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

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

The School District's overall legal debt margin was \$6,711,048 with an unvoted debt margin of \$166,623 at June 30, 2011. Principal and interest requirements to retire general obligation debt at June 30, 2011 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 410,000	\$ 386,446	\$ 796,446
2013	425,000	364,855	789,855
2014	460,000	341,868	801,868
2015	485,000	317,287	802,287
2016	520,000	291,056	811,056
2017-2021	1,920,000	1,107,866	3,027,866
2022-2026	1,600,000	768,722	2,368,722
2027-2031	2,005,000	356,383	2,361,383
2032	460,000	10,925	470,925
Totals	<u>\$ 8,285,000</u>	<u>\$ 3,945,408</u>	<u>\$ 12,230,408</u>

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$104,830 for all services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career and Technology Center, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

NOTE 13 - INSURANCE PURCHASING POOL

Cincinnati USA Regional Chamber Ohio Workers' Compensation Group Rating Plan

The School District participates in the Cincinnati USA Regional Chamber Ohio Workers' Compensation Group Rating Plan (GRP, an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 14 - PUBLIC ENTITY SHARED RISK POOL

Brown County Schools Benefits Consortium

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

NOTE 15 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of		
June 30, 2010	\$ 113,338	\$ -
Current Year Set-aside Requirement	213,114	213,114
Current Year Offsets	(94,405)	(179,713)
Qualifying Disbursements	<u>(192,458)</u>	<u>(77,325)</u>
Set-aside Balance Carried Forward to Future Years	<u>\$ 39,589</u>	<u>\$ (43,924)</u>
Set-aside Reserve Balance as of		
June 30, 2011	<u>\$ 39,589</u>	<u>\$ (43,924)</u>

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 15 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero in the Capital Acquisition Reserve. The carryover amount in the Capital Acquisition Reserve is limited to the balance of the offsets attributed to bond or tax levy proceeds. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$7,089,465 at June 30, 2011.

NOTE 16 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

Litigation

The School District is not party to legal proceedings.

NOTE 17 – ACCOUNTABILITY

At June 30, 2011, the Alternative Education, Education Jobs, Fiscal Stabilization, Title II-D, and Title II-A Special Revenue Funds had fund balance deficits of \$45, \$10,990, \$58,496, \$277, and \$1,120, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 18 – COMMITMENTS

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed or assigned classifications of fund balance on the balance sheet. As of June 30, 2011, the School District's significant commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Outstanding Balance</u>
Classroom Facilities Fund	\$2,765,767

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 19 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF BALANCES

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

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

The implementation of this statement resulted in the reclassification of certain funds, and resulted in the following restatement of the School District’s financial statements:

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>All Other Governmental</u>	<u>Total</u>
Fund Balances,					
June 30, 2010	\$64,398	\$0	\$6,632,792	\$1,716,835	\$8,414,025
Change in Major Funds	0	992,428	0	(992,428)	0
GASB 54 Fund Reclassifications	<u>38,401</u>	<u>0</u>	<u>0</u>	<u>(38,401)</u>	<u>0</u>
Restated Fund Balances,					
June 30, 2010	<u><u>\$102,799</u></u>	<u><u>\$992,428</u></u>	<u><u>\$6,632,792</u></u>	<u><u>\$686,006</u></u>	<u><u>\$8,414,025</u></u>

NOTE 20 – FUND BALANCES

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

<u>Fund Balances</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for					
Athletics	\$0	\$0	\$0	\$45,923	\$45,923
Textbooks	39,589	0	0	0	39,589
Other Grants	0	0	0	103,958	103,958
Classroom Facility and Maintenance	0	0	0	321,813	321,813
Other Purposes	0	0	0	33,629	33,629
Capital Projects	0	0	0	165,054	165,054
Capital Improvements	0	0	3,268,900	0	3,268,900
Debt Services Payments	0	1,047,289	0	0	1,047,289
Total Restricted	<u>39,589</u>	<u>1,047,289</u>	<u>3,268,900</u>	<u>670,377</u>	<u>5,026,155</u>
Assigned to					
Other Purposes	<u>65,812</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>65,812</u>
Unassigned (Deficit)	<u>900,081</u>	<u>0</u>	<u>0</u>	<u>(70,928)</u>	<u>829,153</u>
Total Fund Balances	<u><u>\$1,005,482</u></u>	<u><u>\$1,047,289</u></u>	<u><u>\$3,268,900</u></u>	<u><u>\$599,449</u></u>	<u><u>\$5,921,120</u></u>

Eastern Local School District, Brown County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2011

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through the Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	3L70	10.553	\$ 72,559	\$ -	\$ 72,559	\$ -
National School Lunch Program	3L60	10.555	250,275	57,083	250,275	57,083
Total United States Department of Agriculture			322,834	57,083	322,834	57,083
United States Department of Education						
<i>Passed through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	3M20	84.027	281,167	-	266,808	-
ARRA - Special Education Grants to States	3DJ0	84.391	142,012	-	159,567	-
Total Special Education Cluster			423,179	-	426,375	-
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	404,222	-	377,106	-
ARRA - Title I Grants to Local Educational Agencies	3DK0	84.389	89,794	-	81,373	-
Total Title I, Part A Cluster			494,016	-	458,479	-
Twenty-First Century Community Learning Centers	3Y20	84.287	271,977	-	229,035	-
Education Technology State Grants	3S20	84.318	1,828	-	2,146	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	GRF	84.394	563,622	-	631,621	-
Improving Teacher Quality State Grants	3Y60	84.367	104,718	-	96,755	-
Total United States Department of Education			1,859,340	-	1,844,411	-
Corporation for National and Community Service						
<i>Passed through the Ohio Department of Education</i>						
Learn and Serve America - School and Community Based Programs	3780	94.004	17,100	-	11,537	-
Total Corporation for National and Community Service			17,100	-	11,537	-
Total Federal Financial Assistance			\$ 2,199,274	\$ 57,083	\$ 2,178,782	\$ 57,083

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

Eastern Local School District, Brown County
Notes to the Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B –FOOD DISTRIBUTIONS

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

Cash receipts from the U.S. Department of Agriculture are commingled with state grants and local revenues from the sale of meals. It is assumed federal monies are expended first.



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

Members of the Board of Education
Eastern Local School District
P.O. Box 500
Sardinia, Ohio 45171

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Brown County, Ohio (the School District) as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 27, 2012 in which we noted that the School District adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Members of the Board of Education
Eastern Local School District
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.
January 27, 2012



Balestra, Harr & Scherer, CPAs, Inc.

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

Members of the Board of Education
Eastern Local School District
P.O. Box 500
Sardinia, Ohio 45171

Compliance

We have audited the compliance of Eastern Local School District, Brown County, Ohio (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Eastern Local School District's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Eastern Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

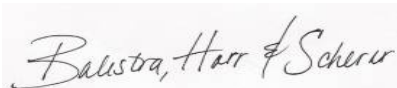
The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal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

Members of the Board of Education
Eastern Local School District
Report on Compliance with Requirements Applicable to each Major Federal Program and on
Internal Control Over Compliance Required by OMB Circular A-133
Page 2

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

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

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



Balestra, Harr & Scherer, CPAs, Inc.
January 27, 2012

**Eastern Local School District
Brown County, Ohio**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education Grants to States; CFDA# 84.027 Special Education Grants to States – ARRA; CFDA# 84.391 Title I Cluster: Title I Grants to Local Educational Agencies; CFDA# 84.010 Title I Grants to Local Educational Agencies – ARRA; CFDA# 84.389 State Fiscal Stabilization Funds (SFSF) – Education State Grants – ARRA; CFDA# 84.394
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**Eastern Local School District
Brown County, Ohio**

**Schedule of Findings
OMB Circular A-133 Section §.505
(Continued)
June 30, 2011**

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

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315 (b)
FOR THE YEAR ENDED JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	Material Weakness – Segregation of Duties/Reconciliation of Reports	Yes	
2010-002	Material Weakness – Financial Reporting	Yes	



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Independent Auditor's Report on Applying Agreed Upon Procedures

Members of the Board of Education
Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on May 20, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

Balestra, Harr & Scherer, CPAs, Inc.

January 27, 2012

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Dave Yost • Auditor of State

EASTERN LOCAL SCHOOL DISTRICT

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2012**