



**Auditor of State  
Betty Montgomery**



**EASTERN LOCAL SCHOOL DISTRICT  
BROWN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANT'S REPORT

Eastern Local School District  
Brown County  
11479 US 62  
Sardinia, Ohio 45171-0500

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 District, as of June 30, 2004, 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.

As described in Note 2, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Also implemented was GASB's No. 37, 38, Interpretation 6, and GASB's No. 39 and 41.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

**Betty Montgomery**  
Auditor of State

June 13, 2005

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

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

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The discussion and analysis of Eastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:**

- Net assets of governmental activities decreased \$489,629.
- General revenues accounted for \$9,251,923 in revenue or 77% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$2,726,235 or 23% of total revenues of \$11,978,158.
- The School District had \$12,467,787 in expenses related to governmental activities; only \$2,726,235 of these expenses were offset by program specific charges for services, grants, and contributions. Program revenues of \$2,726,235 offset all but \$9,741,552 of the cost for these programs.
- The School District has two major funds which are the General Fund and the Debt Service Fund. The General Fund had \$9,920,531 in revenues and other financing sources and \$9,832,974 in expenditures resulting in an increase in fund balance of \$87,557. The Debt Service fund had \$354,119 in revenues and \$299,930 in expenditures resulting in an increase in fund balance of \$54,189.

### **USING THIS ANNUAL FINANCIAL REPORT**

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

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

# Eastern Local School District, Brown County

## *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

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### ***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 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the Statement of Net Assets and the Statement of Activities, all of 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 6. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Debt Service 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.

***Reporting the District's Fiduciary Responsibilities.*** The District acts in trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities on page 16 of this report. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.



**Eastern Local School District, Brown County**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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**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 2004 compared to 2003.

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current and Other Assets	\$5,480,653	\$4,960,351
Capital Assets	12,039,602	12,568,506
Total Assets	<u>17,520,255</u>	<u>17,528,857</u>
<b>Liabilities</b>		
Long-term Liabilities	3,502,161	3,560,196
Other Liabilities	3,793,940	3,254,878
Total Liabilities	<u>7,296,101</u>	<u>6,815,074</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	9,199,602	9,618,506
Restricted	1,080,688	1,115,378
Unrestricted	(56,136)	(20,101)
Total Net Assets	<u>\$10,224,154</u>	<u>\$10,713,783</u>

Total net assets of the District as a whole decreased \$489,629, due mainly to the District's current year depreciation expense.

**Eastern Local School District, Brown County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year. Eastern Local School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

	Governmental Activities
	<u>2004</u>
<b>Revenues</b>	
Program Revenues	
Charges for Services and Sales	\$761,235
Operating Grants and Contributions	1,918,732
Capital Grants and Contributions	46,268
Total Program Revenues	<u>2,726,235</u>
General Revenues	
Property Taxes	2,654,284
Payments in Lieu of Taxes	85,102
Grants and Entitlements	6,384,275
Investment Earnings	26,656
Gifts and Donations	1,014
Miscellaneous	100,592
Total General Revenues	<u>9,251,923</u>
Total Revenues	<u>11,978,158</u>
<b>Program Expenses</b>	
Instruction:	
Regular	5,246,449
Special	1,208,405
Vocational	162,779
Other	403,198
Support Services:	
Pupil	446,472
Instructional Staff	1,069,952
Board of Education	32,047
Administration	867,985
Fiscal	374,257
Business	9,845
Operation and Maintenance of Plant	831,957
Pupil Transportation	811,778
Central	43,329
Operation of Non-Instructional Services	496,704
Extracurricular Activities	254,692
Intergovernmental	27,000
Interest and Fiscal Charges	180,938
Total Expenses	<u>12,467,787</u>
Decrease in Net Assets	(489,629)
Net Assets, Beginning of Year	<u>10,713,783</u>
Net Assets, End of Year	<u>\$ 10,224,154</u>

**Eastern Local School District, Brown County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3  
Governmental Activities

	<u>Total Cost of Services</u> 2004	<u>Net Cost of Services</u> 2004
Program Expenses		
Instruction:		
Regular	\$5,246,449	\$4,850,052
Special	1,208,405	584,996
Vocational	162,779	151,748
Other	403,198	388,589
Support Services:		
Pupil	446,472	421,561
Instructional Staff	1,069,952	854,837
Board of Education	32,047	30,978
Administration	867,985	816,125
Fiscal	374,257	355,778
Business	9,845	9,489
Operation and Maintenance of Plant	831,957	772,647
Pupil Transportation	811,778	336,838
Central	43,329	38,442
Operation of Non-Instructional Services	496,704	(81,876)
Extracurricular Activities	254,692	58,698
Intergovernmental	27,000	8,534
Interest and Fiscal Charges	180,938	144,116
Total	<u>\$12,467,787</u>	<u>\$9,741,552</u>

**THE SCHOOL DISTRICT FUNDS**

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$11,969,565 and expenditures of \$11,905,467. The most significant changes in fund balance were in the General Fund.

While intergovernmental revenue increased \$183,309 from the prior year the District's total expenditures increased causing the General Fund balance to increase by \$87,557.

**Eastern Local School District, Brown County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

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**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. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the School District amended its General Fund budget, but not significantly.

During 2004, there were several revisions to the General Fund budget. In part, these revisions increased estimated resources by \$94,663 and increased appropriations by \$142,567. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General fund's ending unobligated cash balance was \$172,079 above the final budgeted amount.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2004, the School District had \$12,039,602 invested in land, buildings and improvements, furniture and equipment, and vehicles. For additional information on capital assets, see Note 12 to the basic financial statements. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4  
Capital Assets  
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$380,287	\$386,417
Buildings and Improvements	10,278,851	10,540,663
Furniture and Equipment	1,020,004	1,206,080
Vehicles	360,460	435,346
Totals	<u>\$12,039,602</u>	<u>\$12,568,506</u>

Changes in capital assets from the prior year resulted from additions, disposals and depreciation.

**Eastern Local School District, Brown County**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

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***Debt***

At June 30, 2004, the School District had a general obligation bond outstanding of \$2,840,000. The bond was issued for the purpose of constructing, remodeling, reconstructing and adding to school buildings. For additional information on debt, see Note 13 to the basic financial statements.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

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

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**Eastern Local School District, Brown County**  
*Statement of Net Assets*  
*June 30, 2004*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,379,708
Intergovernmental Receivable	89,217
Property Taxes Receivable	2,974,969
Restricted Assets:	
Cash and Cash Equivalents	36,759
Nondepreciable Capital Assets	380,287
Depreciable Capital Assets, Net	11,659,315
<i>Total Assets</i>	<i>17,520,255</i>
<b>Liabilities</b>	
Accounts Payable	825
Accrued Wages and Benefits Payable	1,026,798
Matured Compensated Absences Payable	1,448
Deferred Revenue	2,415,428
Intergovernmental Payable	349,441
Long-Term Liabilities:	
Due Within One Year	124,420
Due In More Than One Year	3,377,741
<i>Total Liabilities</i>	<i>7,296,101</i>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	9,199,602
Restricted for:	
Capital Projects	59,937
Debt Service	607,569
Other Purposes	413,182
Unrestricted	(56,136)
<i>Total Net Assets</i>	<i>\$10,224,154</i>

See accompanying notes to the basic financial statements

**Eastern Local School District, Brown County**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental Activities</b>					Governmental Activities
Instruction:					
Regular	\$5,246,449	\$166,056	\$185,600	\$44,741	(\$4,850,052)
Special	1,208,405	38,317	585,092	0	(584,996)
Vocational	162,779	6,585	4,446	0	(151,748)
Other	403,198	14,609	0	0	(388,589)
Support Services:					
Pupil	446,472	16,020	8,891	0	(421,561)
Instructional Staff	1,069,952	35,071	180,044	0	(854,837)
Board of Education	32,047	1,069	0	0	(30,978)
Administration	867,985	30,744	21,116	0	(816,125)
Fiscal	374,257	12,913	4,039	1,527	(355,778)
Business	9,845	356	0	0	(9,489)
Operation and Maintenance of Plant	831,957	29,303	30,007	0	(772,647)
Pupil Transportation	811,778	25,699	449,241	0	(336,838)
Central	43,329	1,553	3,334	0	(38,442)
Operation of Non-Instructional Services	496,704	271,838	306,742	0	81,876
Extracurricular Activities	254,692	110,418	85,576	0	(58,698)
Intergovernmental	27,000	684	17,782	0	(8,534)
Interest and Fiscal Charges	180,938	0	36,822	0	(144,116)
<b>Totals</b>	<u>\$12,467,787</u>	<u>\$761,235</u>	<u>\$1,918,732</u>	<u>\$46,268</u>	<u>(9,741,552)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					2,234,542
					307,572
					48,672
					63,498
					85,102
					6,384,275
					1,014
					26,656
					100,592
					<u>9,251,923</u>
					(489,629)
					<u>10,713,783</u>
					<u>\$10,224,154</u>

See accompanying notes to the basic financial statements



**Eastern Local School District, Brown County**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2004*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,289,936	\$539,201	\$550,571	\$2,379,708
Receivables:				
Property Taxes	2,514,859	331,451	128,659	2,974,969
Intergovernmental	0	0	89,217	89,217
Restricted Assets:				
Cash and Cash Equivalents	36,759	0	0	36,759
<i>Total Assets</i>	<u>\$3,841,554</u>	<u>\$870,652</u>	<u>\$768,447</u>	<u>\$5,480,653</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$550	\$0	\$275	\$825
Accrued Wages and Benefits Payable	906,150	0	120,648	1,026,798
Matured Compensated Absences Payable	1,448	0	0	1,448
Intergovernmental Payable	149,436	0	7,610	157,046
Deferred Revenue	2,170,546	280,680	152,772	2,603,998
<i>Total Liabilities</i>	<u>3,228,130</u>	<u>280,680</u>	<u>281,305</u>	<u>3,790,115</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	318,551	85,000	150,460	554,011
Reserved for Property Taxes	344,313	50,771	17,331	412,415
Reserved for Budget Stabilization	36,759	0	0	36,759
Unreserved, Undesignated, Reported in:				
General Fund	(86,199)	0	0	(86,199)
Special Revenue Funds	0	0	132,327	132,327
Debt Service Funds	0	454,201	0	454,201
Capital Projects Funds	0	0	187,024	187,024
<i>Total Fund Balances</i>	<u>613,424</u>	<u>589,972</u>	<u>487,142</u>	<u>1,690,538</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,841,554</u>	<u>\$870,652</u>	<u>\$768,447</u>	<u>\$5,480,653</u>

See accompanying notes to the basic financial statements

**Eastern Local School District, Brown County**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

<b>Total Governmental Fund Balances</b>		\$ 1,690,538
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,039,602
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	147,126	
Intergovernmental	41,444	
Total		188,570
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds		(192,395)
Long-Term Liabilities, including bonds and long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(662,161)	
General Obligation Bonds	(2,840,000)	
Total		(3,502,161)
<b>Net Assets of Governmental Activities</b>		<b>\$ 10,224,154</b>

See accompanying notes to the basic financial statements

**Eastern Local School District, Brown County**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$2,239,457	\$307,174	\$111,588	\$2,658,219
Intergovernmental	7,152,989	38,638	1,144,608	8,336,235
Investment Earnings	26,517	0	139	26,656
Charges for Services	0	0	259,334	259,334
Tuition and Fees	352,336	0	42,353	394,689
Rent	3,992	0	0	3,992
Extracurricular Activities	0	0	103,220	103,220
Gifts and Donations	573	0	441	1,014
Payments in Lieu of Taxes	73,313	8,307	3,482	85,102
Miscellaneous	70,842	0	29,750	100,592
<i>Total Revenues</i>	<u>9,920,019</u>	<u>354,119</u>	<u>1,694,915</u>	<u>11,969,053</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,450,150	0	346,456	4,796,606
Special	781,913	0	413,416	1,195,329
Vocational	191,741	0	6,487	198,228
Other	403,198	0	0	403,198
Support Services:				
Pupil	429,498	0	14,696	444,194
Instructional Staff	747,236	0	278,803	1,026,039
Board of Education	32,051	0	0	32,051
Administration	840,713	0	32,166	872,879
Fiscal	343,044	8,992	5,871	357,907
Business	9,845	0	0	9,845
Operation and Maintenance of Plant	752,088	0	46,377	798,465
Pupil Transportation	683,797	0	1,807	685,604
Central	37,329	0	6,000	43,329
Operation of Non-Instructional Services	23,661	0	459,728	483,389
Extracurricular Activities	106,710	0	133,756	240,466
Intergovernmental	0	0	27,000	27,000
Debt Service:				
Principal	0	110,000	0	110,000
Interest and Fiscal Charges	0	180,938	0	180,938
<i>Total Expenditures</i>	<u>9,832,974</u>	<u>299,930</u>	<u>1,772,563</u>	<u>11,905,467</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>87,045</u>	<u>54,189</u>	<u>(77,648)</u>	<u>63,586</u>
<b>Other Financing Sources</b>				
Proceeds from Sale of Capital Assets	512	0	0	512
<i>Total Other Financing Sources</i>	<u>512</u>	<u>0</u>	<u>0</u>	<u>512</u>
<i>Net Change in Fund Balances</i>	87,557	54,189	(77,648)	64,098
<i>Fund Balances Beginning of Year - As Restated, See Note 20</i>	<u>525,867</u>	<u>535,783</u>	<u>564,790</u>	<u>1,626,440</u>
<i>Fund Balances End of Year</i>	<u>\$613,424</u>	<u>\$589,972</u>	<u>\$487,142</u>	<u>\$1,690,538</u>

See accompanying notes to the basic financial statements

**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, 2004*

**Net Change in Fund Balances - Total Governmental Funds** \$ 64,098

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

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

Capital Asset Additions	70,480	
Current Year Depreciation	(480,695)	
Total		(410,215)

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 proceeds from the sale of capital assets and the loss on the disposal of capital assets.

Proceeds from Sale of Capital Assets	(512)	
Loss on Disposal of Capital Assets	(118,177)	
Total		(118,689)

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

Taxes	(3,935)	
Intergovernmental	13,040	
Total		9,105

Repayment 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.

110,000

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	(51,965)	
Increase in Intergovernmental Payable	(91,963)	
Total		(143,928)

**Net Change in Net Assets of Governmental Activities** \$ (489,629)

See accompanying notes to the basic financial statements

**Eastern Local School District, Brown County**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget and Actual (Budgetary Basis)*  
*General*  
*For the Fiscal Year Ended June 30, 2004*

	<b>Original</b>			<b>Variance with</b>
	<b>Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Final Budget</b>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 2,121,232	\$ 2,121,232	\$ 2,212,667	\$ 91,435
Intergovernmental	7,342,121	7,436,784	7,152,989	(283,795)
Interest	28,240	28,240	26,517	(1,723)
Tuition and Fees	268,272	268,272	352,336	84,064
Rent	4,634	4,634	3,992	(642)
Gifts and Donations	2,079	2,079	573	(1,506)
Payments in Lieu of Taxes	82,159	-	73,313	73,313
Miscellaneous	48,392	130,551	40,030	(90,521)
<b>Total Revenues</b>	<b>9,897,129</b>	<b>9,991,792</b>	<b>9,862,417</b>	<b>(129,375)</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	4,412,060	4,455,509	4,357,309	98,200
Special	788,887	780,467	772,700	7,767
Vocational	188,556	199,047	192,091	6,956
Other	454,359	459,385	403,198	56,187
<b>Support Services:</b>				
Pupils	402,561	418,579	418,181	398
Instructional Staff	718,297	723,148	714,405	8,743
Board of Education	24,668	42,036	38,658	3,378
Administration	844,336	860,485	850,874	9,611
Fiscal	340,788	341,921	340,207	1,714
Business	7,345	10,781	9,845	936
Operation and Maintenance of Plant	795,417	803,624	741,681	61,943
Pupil Transportation	705,082	696,503	670,305	26,198
Central	30,609	38,058	37,329	729
Operation of Non-Instructional Services	-	23,724	23,661	63
Extracurricular Activities	115,643	117,908	106,828	11,080
<b>Total Expenditures</b>	<b>9,828,608</b>	<b>9,971,175</b>	<b>9,677,272</b>	<b>293,903</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>68,521</b>	<b>20,617</b>	<b>185,145</b>	<b>164,528</b>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Proceeds from Sale of Fixed Assets	450	450	512	62
Refund of Prior Year Expenditures	17,323	17,323	30,812	13,489
Advances In	6,000	6,000	-	(6,000)
<b>Total Other Financing Sources and Uses</b>	<b>23,773</b>	<b>23,773</b>	<b>31,324</b>	<b>7,551</b>
<b>Net Change in Fund Balances</b>	<b>92,294</b>	<b>44,390</b>	<b>216,469</b>	<b>172,079</b>
<b>Fund Balance (Deficit) at Beginning of Year</b>	<b>1,073,895</b>	<b>1,073,895</b>	<b>1,073,895</b>	<b>-</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>15,720</b>	<b>15,720</b>	<b>15,720</b>	<b>-</b>
<b>Fund Balance (Deficit) at End of Year</b>	<b>\$ 1,181,909</b>	<b>\$ 1,134,005</b>	<b>\$ 1,306,084</b>	<b>\$ 172,079</b>

See accompanying notes to the basic financial statements.

**Eastern Local School District, Brown County**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2004*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$30,892</u>
<b>Total Assets</b>	<u><u>30,892</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>30,892</u>
<b>Total Liabilities</b>	<u><u>\$30,892</u></u>

See accompanying notes to the basic financial statements

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**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 72 non-certified and 103 teaching personnel and administrative employees providing education to 1,530 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 insure 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School District is associated with four organizations, two of which are defined as jointly governed organizations, two as insurance purchasing pools of which one is also a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), Hopewell Special Education Regional Resource Center (Hopewell), and the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP). The Brown County Schools Benefits Consortium is made up of a public entity shared risk pool and an insurance purchasing pool. These organizations are presented in Notes 14, 15 and 16 to the basic financial statements.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

**Fund Accounting**

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

**Governmental Funds**

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

**General Fund**

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

**Bond Retirement Fund**

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School 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 District's only fiduciary funds are agency funds, which are used to account for student-managed activities.

**Basis of Presentation**

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



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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

**Government-wide Financial Statements**

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

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

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

**Basis of Accounting**

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Revenues – Exchange and Non-exchange Transactions**

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 6) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures**

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

**Budgetary Process**

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

**Cash and Cash Equivalents**

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

During fiscal year 2004, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio), Federal Home Loan Mortgage Corp. Bonds, Money Market Savings and repurchase agreements. Repurchase agreements are reported at cost.

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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$26,517. The Other Governmental Funds also received interest in the amount of \$139.

Investments of the cash management pool are considered to be cash equivalents.

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**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 fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000 dollars. The School District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. The District does not capitalize interest for fixed asset purchases. All reported capital assets except land are depreciated.

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

**Compensated Absences**

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

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

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

**Accrued Liabilities and Long-term Obligations**

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

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

*Eastern Local School District, Brown County*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**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, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

**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. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**Fund Balance Reserves**

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

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

**Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represents amounts required by statute to be set-aside by the School District for budget stabilization. See Note 17 for additional information regarding set-asides.

**Estimates**

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

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 3 - ACCOUNTABILITY**

Fund balances at June 30, 2004, included the following individual fund deficit:

	<u>Amount</u>
<u>Non-Major Funds</u>	
Alternative School Grant	\$ 5,169

The deficit in this fund is due to adjustments for accrued liabilities. The general fund is liable for the deficit in this fund and provides operating transfers when cash is required, not when accruals occur.

**NOTE 4 - 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)-General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$87,557
Adjustments:	
Revenue Accruals	(26,790)
Expenditure Accruals	176,314
Encumbrances	<u>(20,612)</u>
Budget Basis	<u><u>\$216,469</u></u>

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 5 - 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 5 - DEPOSITS AND INVESTMENTS** (Continued)

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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

**Deposits:** At fiscal year-end, the carrying amount of the School District's deposits was \$472,454 and the bank balance was \$560,719. Of the bank balance \$300,000 was covered by federal depository insurance. \$260,719 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**Investments:** The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, and Money Market are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Unclassified	Carrying/Fair Value
STAR Ohio	\$0	\$988,356	\$988,356
Federal Home Loan Mtg. Corp. Bonds	251,172	0	251,172
Repurchase Agreements	727,049	0	727,049
Money Market	0	8,328	8,328
	<u>\$978,221</u>	<u>\$996,684</u>	<u>\$1,974,905</u>

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	
	Deposits	Investments
Basic Financial Statement	\$2,447,359	\$0
Investments:		
Federal Home Loan Mtg. Corp. Bonds	(251,172)	251,172
STAR Ohio	(988,356)	988,356
Money Market	(8,328)	8,328
Repurchase Agreements	(727,049)	727,049
GASB Statement No. 3	<u>\$472,454</u>	<u>\$1,974,905</u>



**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) are for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2004 real property taxes are collected in and intended to finance fiscal year 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004 and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

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

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

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$94,580,310	90.41%	\$108,137,480	91.84%
Public Utility	6,854,900	6.55%	6,637,640	5.64%
Tangible-Personal Property	3,182,675	3.04%	2,967,397	2.52%
Total Assessed Value	<u>\$104,617,885</u>	<u>100.00%</u>	<u>\$117,742,517</u>	<u>100.00%</u>
Tax rate per \$1,000 of Assessed valuation	\$37.80		\$37.80	

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, 2004 are available to finance fiscal year 2004 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, 2004

**NOTE 6 - 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, 2004 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, 2004, was \$344,313 in the General Fund \$50,771 in the Debt Service Fund and \$17,331 in the Other Governmental Funds.

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, accounts (tuition), 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. Tuition is also considered collectible in full due to the withholding of diplomas and grade cards.

A summary of the principal items of the intergovernmental receivables follows at June 30, 2004:

	<u>Amounts</u>
Non-Major Funds:	
Title VI-B	\$22,212
Class Size Reduction	1,289
Safe and Drug Free Schools	4,942
Title I	<u>60,774</u>
Total Intergovernmental Receivables	<u>\$ 89,217</u>

**NOTE 8 - 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 2004, the School District contracted with Selective Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$4,000,000 aggregate. Property is protected by the Selective Insurance Company and holds a \$10,000 deductible. The School District's vehicles are covered by the Selective Insurance Company and holds a \$500 deductible for both comprehensive and collision with a \$1,000,000 limit on any accident. Vehicles are also covered under the commercial umbrella policy.

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.

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). 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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2004**

**NOTE 8 - RISK MANAGEMENT** (Continued)

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity risk pool (Note 16) consisting of seven 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 9 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. 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 (614) 222-5853.

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 rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The School District's contributions to SERS for the fiscal years ending June 30, 2004, 2003 and 2002 were \$233,819, \$147,853, and \$47,759 respectively, 39 percent has been contributed for fiscal year 2004, and 100 percent for the fiscal years 2003 and 2002. \$142,847 representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the basic financial statements.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

*Eastern Local School District, Brown County*

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** (continued)

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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to 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.

The DB 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 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary 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.

The DC Plan 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 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 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 designed beneficiary is entitled to receive the member's account balance.

Member contributions for the Combined Plan Benefits 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.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (SRP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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 a money-purchase or a lump-sum payment in addition to the original retirement allowance.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 9 - DEFINED BENEFIT PENSION PLANS** (continued)

Benefits are increased annually by 3% of the original base amount.

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.

For the fiscal year ended June 30 2004, plan members were required to contribute 10 percent of their annual covered salaries, and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$639,734, \$658,848, and \$435,447 respectively; 84% has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$104,316 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$49,635 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2004**

**NOTE 10 - POSTEMPLOYMENT BENEFITS** (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2004 employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$194,520.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 11 - 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 200 days for teachers and classified personnel. Administrators with a 242 day contract may accumulate up to a maximum of 266 days, with a 222 day contract may accumulate up to a maximum of 244 days, and with a 202 day contract may accumulate up to 222 days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 50 days for teachers, administrators, and classified personnel.

**B. Other Employee Benefits**

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

**C. Early Retirement Incentive**

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

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 12 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	*Restated Ending Balance 6/30/2003	Additions	Deletions	Ending Balance 6/30/2004
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$386,417	\$0	(\$6,130)	\$380,287
Total Capital Assets, Not Being Depreciated	<u>386,417</u>	<u>0</u>	<u>(6,130)</u>	<u>380,287</u>
Capital Assets Being Depreciated				
Buildings and Improvements	13,000,555	0	(116,694)	12,883,861
Furniture and Equipment	2,880,172	70,480	(579,217)	2,371,435
Vehicles	1,098,794	0	(31,980)	1,066,814
Total Capital Assets Being Depreciated	<u>16,979,521</u>	<u>70,480</u>	<u>(727,891)</u>	<u>16,322,110</u>
Less: Accumulated Depreciation:				
Buildings and Improvements	(2,459,892)	(257,728)	112,610	(2,605,010)
Furniture and Equipment	(1,674,092)	(148,081)	470,742	(1,351,431)
Vehicles	(663,448)	(74,886)	31,980	(706,354)
Total Accumulated Depreciation	<u>(4,797,432)</u>	<u>(480,695)</u>	<u>615,332</u>	<u>(4,662,795)</u>
Total Capital Assets Being Depreciated, Net	<u>12,182,089</u>	<u>(410,215)</u>	<u>(112,559)</u>	<u>11,659,315</u>
Governmental Capital Assets, Net	<u>\$12,568,506</u>	<u>(\$410,215)</u>	<u>(\$118,689)</u>	<u>\$12,039,602</u>

\* As Restated, See Note 20 to the basic financial statements.

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$365,294
Special	4,053
Vocational	3,150
Support Services:	
Pupil	1,476
Instructional Staff	6,945
Administration	1,938
Fiscal	619
Operation and Maintenance of Plant	3,923
Pupil Transportation	75,897
Non-Instructional Services	17,400
Total Depreciation Expense	<u>\$480,695</u>

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 13 - LONG-TERM OBLIGATIONS**

The change in the School District's long-term obligations during the fiscal year 2004 were as follows:

	<u>Principal Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/04</u>	<u>Due Within One Year</u>
School Construction/Remodeling Bonds 1995 6.25%	\$2,950,000	\$0	\$110,000	\$2,840,000	\$120,000
Compensated Absences	<u>610,196</u>	<u>662,161</u>	<u>610,196</u>	<u>662,161</u>	<u>4,420</u>
Total Governmental Activities	<u><u>\$3,560,196</u></u>	<u><u>\$662,161</u></u>	<u><u>\$720,196</u></u>	<u><u>\$3,502,161</u></u>	<u><u>\$124,420</u></u>

***School Construction/Remodeling Bonds***

On March 1, 1995, the Eastern Local 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 debt service fund.

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

The School District's overall legal debt margin was \$7,756,827 with an unvoted debt margin of \$117,743 at June 30, 2004.

Principal and interest requirements to retire general obligation debt at June 30, 2004 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$120,000	\$173,750	\$293,750
2006	125,000	166,094	\$291,094
2007	135,000	157,969	\$292,969
2008	140,000	149,375	\$289,375
2009	150,000	140,313	\$290,313
2010-2014	1,010,000	534,376	\$1,544,376
2015-2018	<u>1,160,000</u>	<u>150,626</u>	<u>\$1,310,626</u>
Totals	<u><u>\$2,840,000</u></u>	<u><u>\$1,472,503</u></u>	<u><u>\$4,312,503</u></u>



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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS**

**A. South Central Ohio Computer Association**

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$63,346 for all services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

**B. Hopewell Special Education Regional Resource Center (Hopewell)**

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

**NOTE 15 - INSURANCE PURCHASING POOL**

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

**NOTE 16 - 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) 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 Medical Mutual of Ohio 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

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 16 - PUBLIC ENTITY SHARED RISK POOL** (Continued)

**Brown County Schools Benefits Consortium** (Continued)

hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, CoreSource. 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 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

For fiscal year ended June 30, 2004, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance of June 30, 2003	\$ 0	\$ 0	\$36,759
Current Year Set-aside Requirement	212,567	212,567	0
Current Year Offsets	0	(110,682)	0
Prior Year Carryforward	(116,093)	0	0
Qualifying Disbursements	(182,797)	(101,885)	0
Set-aside Balance Carried Forward to Future Years	(\$86,323)	\$ 0	\$36,759
Set-aside Reserve Balance as of June 30, 2004			<u>\$36,759</u>

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

The total reserve balance for the set-asides at the end of the fiscal year was \$36,759.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 18 - 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, 2004.

**NOTE 19 - STATE SCHOOL-FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 20 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

For the fiscal year 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements", GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences." GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information by major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The School District has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general fund and each major special revenue fund. This Statement had no effect on the budgetary presentation of the Eastern Local School District.

**Eastern Local School District, Brown County**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

**NOTE 20 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

(continued)

Restatements: Restatements were made to reclassify the Food Service activity previously reported as enterprise funds on the modified basis. Food Service capital assets and inventory were also restated from the prior year. The amount for the workers' compensation was also restated to full accrual.

The implementation of the Statements requires certain adjustments be recorded to the June 30, 2003, fund balances of Major and Non-Major funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Non-Major	Total
Fund Balances, June 30, 2003	\$515,119	\$535,783	\$561,288	\$1,612,190
Interpretation 6	6,477	0	8,574	15,051
Fund Reclassification Restatement	0	0	166,267	166,267
Restatement Amount	4,271	0	(171,339)	(167,068)
Restated Fund Balances, June 30, 2003	\$525,867	\$535,783	\$564,790	\$1,626,440

Adjustments to Comply with GASB 34:

Capital Assets	12,568,506
Debt	(2,950,000)
Compensated Absences	(610,196)
Intergovernmental Payables	(100,432)
Deferred Revenue	179,465
Governmental Activities Net Assets	_____
June 30, 2003	\$10,713,783

	<u>Enterprise</u>
Balance, June 30, 2003	\$166,267
Fund Reclassification Restatement (Food Service)	<u>(166,267)</u>
Balance, July 1, 2003	<u>\$0</u>

**EASTERN LOCAL SCHOOL DISTRICT  
BROWN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$23,783	\$0	\$23,783
National School Breakfast	05PU-2003	10.553	3,403		3,403	
National School Breakfast	05PU-2004	10.553	27,126		27,126	
National School Breakfast	05RE-2004	10.553	4,500		0	
National School Lunch	LLPA-2003	10.555	18,164		18,164	
National School Lunch	LLPA-2004	10.555	133,610		133,610	
Total			<u>186,803</u>	<u>-</u>	<u>182,303</u>	<u>-</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>186,803</u>	<u>23,783</u>	<u>182,303</u>	<u>23,783</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SBST-2003-P	84.027	52,500		144,147	
	6BSF-2003-P	84.027	23,178		23,207	
	6BSF-2004	84.027	165,030		154,225	
	6BSD-2004-P	84.027	18,882		16,084	
Total Special Education			<u>259,590</u>		<u>337,663</u>	
Title I Grants to Local Educational Agencies	C1-S1-03	84.010	51,916		51,916	
	C1-S1-04	84.010	401,841		380,041	
Total Title I			<u>453,757</u>		<u>431,957</u>	
Safe and Drug Free Schools and Communities, National Program	T4S1-03	84.184C	2,681		3,669	
	T4S1-04	84.184C	8,050		7,446	
Total Safe and Drug Free			<u>10,731</u>		<u>11,115</u>	
Safe and Drug-Free Schools and Communities-State Grants	DR-S1-01	84.186	6,783		8,947	
Innovative Educational Program Strategies	C2-S1-04	84.298	6,519		3,252	
Education Technology State Grants, Title II, Part D	TJS1-04	84.318	9,234		9,392	
Rural Education Achievement Program	RU-SI-03	84.358	0		4,504	
Improving Teacher Quality State Grants, Title II, Part A	TRSI-03	84.367	11,518		11,518	
	TRSI-04	84.367	104,690		93,927	
			<u>116,208</u>		<u>105,445</u>	
Total Department of Education			<u>\$862,822</u>		<u>\$912,275</u>	
Totals			<u>\$1,049,625</u>	<u>\$23,783</u>	<u>\$1,094,578</u>	<u>\$23,783</u>

**EASTERN LOCAL SCHOOL DISTRICT  
BROWN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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



**Auditor of State  
Betty Montgomery**

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

Eastern Local School District  
Brown County  
11479 US 62  
Sardinia, Ohio 45171

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 13, 2005, wherein we noted the District adopted Governmental Accounting Standard No. 34 and other GASB's. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated June 13, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated June 13, 2005, we reported other matters related to noncompliance we deemed immaterial.

Eastern Local School District  
Brown County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and On Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

June 13, 2005





## Auditor of State Betty Montgomery

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

Eastern Local School District  
Brown County  
11479 US 62  
Sardinia, Ohio 45171

To the Board of Education:

#### Compliance

We have audited the compliance of Eastern Local School District, Brown County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

#### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

**Betty Montgomery**  
Auditor of State

June 13, 2005

**EASTERN LOCAL SCHOOL DISTRICT  
BROWN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title VI-B, CFDA #84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes





**Auditor of State  
Betty Montgomery**

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**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  
JULY 5, 2005**