



**Auditor of State
Betty Montgomery**

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Pike County, Ohio, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

March 31, 2005

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the 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 \$1,345,444.
- General revenues accounted for \$5,493,719 in revenue or 73% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$2,047,570 or 27% of total revenues of \$7,541,289.
- The School District had \$8,886,733 in expenses related to governmental activities; only \$2,047,570 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$5,493,719 were used to provide for a portion of the cost of these programs.
- The School District has two major funds; the General Fund and the Classroom Facilities Capital Project Fund. The General Fund's balance increased \$425,151. The Classroom Facilities balance decreased \$602,615 due primarily to the completion of the construction project.

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 major funds with all other non-major funds presented in total in one column.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all non-fiduciary 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 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Project 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.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

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.

Proprietary Funds – The School District maintains a proprietary fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District's internal service fund accounts for dental claims. The proprietary fund financial statements can be found on pages 18-20 of this report.

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

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
Assets		
Current and Other Assets	\$3,792,278	\$4,561,411
Capital Assets	23,259,156	24,162,163
Total Assets	<u>27,051,434</u>	<u>28,723,574</u>
Liabilities		
Long-term Liabilities	1,474,393	1,461,886
Other Liabilities	1,511,442	1,850,645
Total Liabilities	<u>2,985,835</u>	<u>3,312,531</u>
Net Assets		
Invested in Capital Assets, Net of Debt	22,099,242	22,962,079
Restricted	1,522,504	2,437,797
Unrestricted	443,853	11,167
Total Net Assets	<u><u>\$24,065,599</u></u>	<u><u>\$25,411,043</u></u>

Total net assets of the School District as a whole decreased \$1,345,444. Of the \$1,345,444, \$911,162 was due to current year depreciation expense.

Eastern Local School District
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 as compared to 2003.

Table 2
Changes in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
Revenues		
Program Revenues		
Charges for Services	\$261,610	\$107,622
Operating Grants, Contributions and Interest	1,765,885	1,745,518
Capital Grants and Contributions	20,075	11,500
Total Program Revenues	<u>2,047,570</u>	<u>1,864,640</u>
General Revenues		
Property Taxes	884,456	843,292
Grants and Entitlements	4,534,631	3,908,309
Investment Earnings	38,627	67,114
Gifts and Donations	270	0
Gain on Disposal of Capital Assets	1,211	17,329
Miscellaneous	34,524	49,348
Total General Revenues	<u>5,493,719</u>	<u>4,885,392</u>
Total Revenues	<u>7,541,289</u>	<u>6,750,032</u>
Program Expenses		
Instruction:		
Regular	3,848,402	4,212,215
Special	882,697	521,956
Vocational	62,022	41,706
Other	831,354	70,545
Support Services:		
Pupil	376,001	216,366
Instructional Staff	326,212	228,642
Board of Education	14,158	28,391
Administration	661,343	812,551
Fiscal	195,928	184,421
Operation and Maintenance of Plant	557,027	1,227,415
Pupil Transportation	625,738	519,812
Central	56,942	2,514
Operation of Non-Instructional Services	284,129	286,894
Extracurricular Activities	103,832	315,550
Interest and Fiscal Charges	60,948	67,972
Total Expenses	<u>8,886,733</u>	<u>8,736,950</u>
Decrease in Net Assets	<u>(1,345,444)</u>	<u>(1,986,918)</u>
Net Assets Beginning of Year	<u>25,411,043</u>	<u>27,397,961</u>
Net Assets End of Year	<u>\$24,065,599</u>	<u>\$25,411,043</u>

Eastern Local School District
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 for fiscal year 2004 as compared to 2003. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2004	2004	2003	2003
Program Expenses				
Instruction:				
Regular	\$3,848,402	(\$3,274,805)	\$4,212,215	(\$3,713,296)
Special	882,697	(324,318)	521,956	52,927
Vocational	62,022	(60,499)	41,706	(41,685)
Other	831,354	(810,868)	70,545	(70,511)
Support Services:				
Pupil	376,001	(260,129)	216,366	(112,650)
Instructional Staff	326,212	(226,232)	228,642	(170,097)
Board of Education	14,158	(13,743)	28,391	(28,383)
Administration	661,343	(619,156)	812,551	(785,800)
Fiscal	195,928	(187,402)	184,421	(173,714)
Operation and Maintenance of Plant	557,027	(534,735)	1,227,415	(1,224,942)
Pupil Transportation	625,738	(268,607)	519,812	(190,221)
Central	56,942	(55,558)	2,514	(2,514)
Operation of Non-Instructional Services	284,129	(78,936)	286,894	(54,348)
Extracurricular Activities	103,832	(80,361)	315,550	(299,267)
Interest and Fiscal Charges	60,948	(43,814)	67,972	(57,809)
Total	<u>\$8,886,733</u>	<u>(\$6,839,163)</u>	<u>\$8,736,950</u>	<u>(\$6,872,310)</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 of \$7,734,387 and expenditures of \$7,934,017.

The net change in fund balance for the year was most significant in the Classroom Facilities Fund with revenues of \$12,063 and expenditures of \$614,678. This was due primarily to the completion of the School District's construction project.

The General Fund had total revenues and other financing sources of \$6,046,862 and expenditures and other financing uses of \$5,621,711. The net change in fund balance for the General Fund increased from the prior year due to an increase in intergovernmental revenues from the prior year.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

General Fund Budgeting Highlights

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

For the General Fund, the final budget basis revenue was \$571,356, above the original estimate, due to an increase in intergovernmental revenues while the School District's final appropriations were \$236,173, below original estimates due to conservative budgeting by the School District.

For the General Fund, the School District received \$76,672 less in revenues than the final budget. The School District expended \$76,674 less than the final budgeted amount. The School District had anticipated intergovernmental monies would be received prior to year end.

The School District's ending unobligated General Fund balance was \$1,268,048 above final estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the School District had \$23,259,156 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and textbooks. For additional information on capital assets, see Note 9 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	\$120,410	\$120,410
Land Improvements	1,266,163	844,012
Buildings and Improvements	20,949,653	21,674,994
Furniture and Equipment	837,250	909,232
Vehicles	79,115	126,048
Library and Textbooks	6,565	19,694
Construction in Progress	0	467,773
Totals	\$23,259,156	\$24,162,163

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

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt

At June 30, 2004, the School District had general obligation bonds outstanding of \$1,155,000. The original issue date of these bonds was June 4, 1998, in the amount of \$1,423,000 for the purpose of building new school building facilities. The bonds were issued for a twenty-three year period with final maturity during fiscal year 2021. The bonds will be retired from the debt service fund. For additional information on debt, see note 13 to the basic financial statements.

ECONOMIC FACTORS

As the preceding information shows, the School District depends upon the State School Foundation Program. Eastern Local School District must continue to monitor its current spending habits to ensure that costs are contained. The School District is in a low economic growth area, so local tax revenue will not be a major source of revenue growth unless the area grows substantially.

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 Lucille Cloud, Interim Treasurer at Eastern Local School District, 1171 Tile Mill Road, Beaver, Ohio 45613.

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

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,366,297
Accounts Receivable	7,780
Intergovernmental Receivable	58,284
Property Taxes Receivable	987,717
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	372,200
Nondepreciable Capital Assets	120,410
Depreciable Capital Assets, Net	23,138,746
<i>Total Assets</i>	27,051,434
Liabilities	
Accounts Payable	41,994
Accrued Wages and Benefits Payable	468,035
Matured Compensated Absences Payable	23,095
Accrued Interest Payable	4,914
Claims Payable	2,149
Deferred Revenue	790,094
Intergovernmental Payable	181,161
Long-Term Liabilities:	
Due Within One Year	45,000
Due In More Than One Year	1,429,393
<i>Total Liabilities</i>	2,985,835
Net Assets	
Invested in Capital Assets, Net of Related Debt	22,099,242
Restricted for:	
Capital Projects	892,364
Debt Service	251,788
Budget Stabilization	29,239
Other Purposes	349,113
Unrestricted	443,853
<i>Total Net Assets</i>	\$24,065,599

See accompanying notes to the basic financial statements

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$3,848,402	\$91,573	\$461,949	\$20,075	(\$3,274,805)
Special	882,697	40,176	518,203	0	(324,318)
Vocational	62,022	1,523	0	0	(60,499)
Other	831,354	20,486	0	0	(810,868)
Support Services:					
Pupil	376,001	16,393	99,479	0	(260,129)
Instructional Staff	326,212	14,222	85,758	0	(226,232)
Board of Education	14,158	415	0	0	(13,743)
Administration	661,343	17,951	24,236	0	(619,156)
Fiscal	195,928	4,952	3,574	0	(187,402)
Operation and Maintenance of Plant	557,027	14,288	8,004	0	(534,735)
Pupil Transportation	625,738	14,257	342,874	0	(268,607)
Central	56,942	1,384	0	0	(55,558)
Operation of Non-Instructional					
Services	284,129	19,957	185,236	0	(78,936)
Extracurricular Activities	103,832	4,033	19,438	0	(80,361)
Interest and Fiscal Charges	60,948	0	17,134	0	(43,814)
<i>Totals</i>	<u>\$8,886,733</u>	<u>\$261,610</u>	<u>\$1,765,885</u>	<u>\$20,075</u>	<u>(6,839,163)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					720,766
Debt Service					163,690
Grants and Entitlements not Restricted to Specific Programs					4,534,631
Gifts and Dontations not Restricted to Specific Programs					270
Investment Earnings					38,627
Gain on Disposal of Capital Assets					1,211
Miscellaneous					34,524
<i>Total General Revenues</i>					<u>5,493,719</u>
<i>Change in Net Assets</i>					(1,345,444)
<i>Net Assets Beginning of Year</i>					<u>25,411,043</u>
<i>Net Assets End of Year</i>					<u>\$24,065,599</u>

See accompanying notes to the basic financial statements

Eastern Local School District

Balance Sheet

Governmental Funds

June 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$959,424	\$683,427	\$709,079	\$2,351,930
Receivables:				
Property Taxes	810,822	0	176,895	987,717
Accounts	7,450	0	330	7,780
Interfund	23,190	0	0	23,190
Intergovernmental	0	0	58,284	58,284
Restricted Assets:				
Cash and Cash Equivalents	<u>372,200</u>	<u>0</u>	<u>0</u>	<u>372,200</u>
<i>Total Assets</i>	<u>\$2,173,086</u>	<u>\$683,427</u>	<u>\$944,588</u>	<u>\$3,801,101</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$20,867	\$12,354	\$8,773	\$41,994
Accrued Wages and Benefits Payable	327,138	0	140,897	468,035
Interfund Payable	0	0	23,190	23,190
Matured Compensated Absences	23,095	0	0	23,095
Intergovernmental Payable	62,095	0	22,181	84,276
Deferred Revenue	<u>741,531</u>	<u>0</u>	<u>164,253</u>	<u>905,784</u>
<i>Total Liabilities</i>	<u>1,174,726</u>	<u>12,354</u>	<u>359,294</u>	<u>1,546,374</u>
Fund Balances				
Reserved for Encumbrances	44,198	137,263	8,306	189,767
Reserved for Property Taxes	69,291	0	14,051	83,342
Reserved for Budget Stabilization	29,239	0	0	29,239
Reserved for Textbooks and Materials	235,034	0	0	235,034
Reserved for Bus Purchases	107,927	0	0	107,927
Unreserved, Undesignated, Reported in:				
General Fund	512,671	0	0	512,671
Special Revenue Funds	0	0	121,623	121,623
Debt Service Funds	0	0	221,223	221,223
Capital Projects Funds	<u>0</u>	<u>533,810</u>	<u>220,091</u>	<u>753,901</u>
<i>Total Fund Balances</i>	<u>998,360</u>	<u>671,073</u>	<u>585,294</u>	<u>2,254,727</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,173,086</u>	<u>\$683,427</u>	<u>\$944,588</u>	<u>\$3,801,101</u>

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances		\$ 2,254,727
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.		23,259,156
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	114,281	
Intergovernmental	1,409	
Total		115,690
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds		(96,885)
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets		12,218
Long-Term Liabilities, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(4,914)	
Compensated Absences	(319,393)	
Energy Conservation Notes	(1,155,000)	
Total		(1,479,307)
Net Assets of Governmental Activities		\$ 24,065,599

See accompanying notes to the basic financial statements

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

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$718,715	\$0	\$155,345	\$874,060
Intergovernmental	5,138,435	0	1,386,861	6,525,296
Investment Earnings	26,564	12,063	0	38,627
Charges for Services	0	0	87,167	87,167
Tuition and Fees	138,417	0	240	138,657
Extracurricular Activities	0	0	35,786	35,786
Gifts and Donations	74	0	196	270
Miscellaneous	23,446	0	11,078	34,524
<i>Total Revenues</i>	<u>6,045,651</u>	<u>12,063</u>	<u>1,676,673</u>	<u>7,734,387</u>
Expenditures				
Current:				
Instruction:				
Regular	1,732,625	0	677,689	2,410,314
Special	515,044	0	363,590	878,634
Vocational	59,464	0	0	59,464
Other	831,354	0	0	831,354
Support Services:				
Pupil	232,601	0	135,881	368,482
Instructional Staff	190,213	0	120,594	310,807
Board of Education	13,408	0	0	13,408
Administration	566,459	0	35,789	602,248
Fiscal and Business	189,194	0	7,837	197,031
Operation and Maintenance of Plant	542,845	0	11,821	554,666
Pupil Transportation	566,004	0	45	566,049
Central	56,942	0	0	56,942
Operation of Non-Instructional Services	0	0	265,534	265,534
Extracurricular Activities	75,443	0	27,845	103,288
Capital Outlay	0	614,678	0	614,678
Debt Service:				
Principal	0	0	40,000	40,000
Interest and Fiscal Charges	0	0	61,118	61,118
<i>Total Expenditures</i>	<u>5,571,596</u>	<u>614,678</u>	<u>1,747,743</u>	<u>7,934,017</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>474,055</u>	<u>(602,615)</u>	<u>(71,070)</u>	<u>(199,630)</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets	1,211	0	0	1,211
Operating Transfers In	0	0	62,331	62,331
Operating Transfers Out	(50,115)	0	(12,216)	(62,331)
<i>Total Other Financing Sources</i>	<u>(48,904)</u>	<u>0</u>	<u>50,115</u>	<u>1,211</u>
<i>Net Change in Fund Balance</i>	425,151	(602,615)	(20,955)	(198,419)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>573,209</u>	<u>1,273,688</u>	<u>606,249</u>	<u>2,453,146</u>
<i>Fund Balances End of Year</i>	<u>\$998,360</u>	<u>\$671,073</u>	<u>\$585,294</u>	<u>\$2,254,727</u>

See accompanying notes to the basic financial statements

Eastern Local School District
*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 \$ (198,419)

**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	8,155	
Current Year Depreciation	(911,162)	
Total		(903,007)

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

Proceeds from Sale of Capital Assets	(1,211)	
Gain on Disposal of Capital Assets	1,211	
Total		-

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

Taxes	10,396	
Intergovernmental	(204,706)	
Total		(194,310)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(1,948)

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.

40,000

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 Intergovernmental Payable	(35,424)	
Decrease in Interest Payable	170	
Increase in Compensated Absences	(52,506)	
Total		(87,760)

Net Change in Net Assets of Governmental Activities \$ (1,345,444)

See accompanying notes to the basic financial statements

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget: Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Total Revenues and Other Sources	\$ 5,545,619	\$ 6,116,975	\$ 6,040,303	\$ (76,672)
Total Expenditures and Other Uses	6,103,599	5,867,426	5,790,752	76,674
Net Change in Fund Balance	(557,980)	249,549	249,551	2
Fund Balance, July 1, 2003	957,989	957,989	957,989	-
Prior Year Encumbrances Appropriated	60,508	60,508	60,508	-
Fund Balance, June 30, 2004	<u>\$ 460,517</u>	<u>\$ 1,268,046</u>	<u>\$ 1,268,048</u>	<u>\$ 2</u>

See accompanying notes to the basic financial statements

Eastern Local School Distrit
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
as of June 30, 2004

	<u>Internal Service Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$14,367</u>
<i>Total Assets</i>	<u><u>14,367</u></u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>2,149</u>
<i>Total Liabilities</i>	<u>2,149</u>
NET ASSETS:	
Unrestricted	<u><u>\$12,218</u></u>

See accompanying notes to the basic financial statements

Eastern Local School District
*Statement of Revenues, Expenses and
 Changes In Fund Net Assets*
 Governmental Activities - Internal Service Fund
 For the Fiscal Year Ended June 30, 2004

	Internal Service Fund
Operating Revenues:	
Charges for Services	\$43,330
<i>Total Operating Revenue</i>	43,330
Operating Expenses:	
Claims Expense	45,278
<i>Total Operating Expenses</i>	45,278
Change in Net Assets	(1,948)
Net Assets at Beginning of Year	14,166
Net Assets at End of Year	\$12,218

See accompanying notes to the basic financial statements

Eastern Local School District
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Internal Service Fund
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Transaction with Other Funds	\$43,330
Cash Payments for Claims	(52,665)
<i>Net Cash Used for Operating Activities</i>	(9,335)
Cash and Cash Equivalents at Beginning of Year	23,702
Cash and Cash Equivalents at End of Year	\$14,367
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>	
Operating Loss	(\$1,948)
<i>Changes in Assets and Liabilities:</i>	
Decrease in Claims Payable	(7,387)
<i>Net Cash Used for Operating Activities</i>	(\$9,335)
See accompanying notes to the basic financial statements	

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

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$39,573</u>
Liabilities	
Undistributed Monies	<u>\$39,573</u>
	<u>\$39,573</u>

See accompanying notes to the basic financial statements

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Eastern Local School District
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 1960 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 107 square miles. It is located in Pike County, and includes all of the Villages of Beaver and Stockdale and portions of Marion, Union, and East Jackson Townships in Pike County, Madison Township in Scioto County and Liberty Township in Jackson County. It is staffed by 37 non-certificated employees, 61 certificated full-time teaching personnel, and 6 administrators who provide services to 808 students and other community members. The School District currently operates three instructional buildings.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the 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 organizations 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 organizations 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 does not have any component units.

The following 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.

- Village of Beaver
- Parent Teacher Organization
- Ross - Pike County Educational Service Center

The School District participates in four organizations, two of which are defined as jointly governed organizations, and two as group purchasing pools. These organizations are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 14 and 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

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

Government-wide Financial Statements:

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

Fund Financial Statements:

During the fiscal 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. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental 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.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classroom Facilities Fund

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

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Eastern Local School District has no Enterprise Funds.

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Eastern Local School District on a cost reimbursement basis. The district's only internal service fund accounts for the self-insurance program for employee dental claims.

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. 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.

C. Measurement Focus

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

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. 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.

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. "Measurable" means the amount of the transaction can be determined, and "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 60 days of year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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 year-end: property taxes available as an advance, investment earnings, tuition, grants, and fees.

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, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal 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 statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the 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 had no investments.

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 \$26,564 and \$12,063 for the Classroom Facilities major capital project fund.

For purposes of presentation on the balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for budget stabilization, and amounts required by statute to be set-aside by the School District for the purchase of textbooks and buses. See Note 16 for additional information regarding set-asides.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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 \$1,500. The School District does not possess any infrastructure.

Improvements are capitalized; 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.

All reported capital assets except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-25 years
Building and Improvements	20-25 years
Furniture and Equipment	10-15 years
Vehicles	10-15 years

H. Interfund Activity

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

I. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate its 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 severance benefits and those the School District has identified as probable of receiving payment in the future. The School District records an accrual for sick leave for all employees with twenty years or more of service. The accrual amount is based upon accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the School District's severance policy.

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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 judgements and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds are recognized as an expenditure and liability in the governmental fund financial statements when due.

K. Fund Balance Reserves

The School District records reservations for 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 are established for encumbrances, property taxes, textbooks and instructional materials, bus purchases 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 appropriations under State statute.

L. 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.

M. 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.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

For the fiscal year 2004, the School District has 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.

At June 30, 2004, the district does not have any organizations that qualify as a component unit of the primary government and therefore, there was no effect on fund balance as a result of implementing GASB 39.

Restatements: Modified restatements were made to reclassify the internal service activity previously reported within the General Fund on the modified basis.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

This restatement had the following effect on fund balance/net assets as previously reported.

	General	Internal Service
Fund Balances, June 30, 2003	\$587,375	\$0
Reclassification of Internal Service Fund	(14,166)	14,166
Restated Fund Balances, June 30, 2003	\$573,209	\$14,166

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2004, the Food Service, DPIA, and Title I Special Revenue Funds had fund balance deficits of \$6,444, \$6,452, and \$29,753, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

Ohio Revised Code 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

As of May 31, 2004, actual expenditures plus encumbrances exceeded appropriations at the fund level for the following funds:

Fund	Total Appropriations	Expenditures Plus Encumbrances	Variance
Public School Support	\$12,603	\$13,904	\$1,301
School Improvement Models	10,150	11,885	1,735
District Managed Activity	22,969	26,429	3,460
Teacher Development	3,400	11,506	8,106
Managed Information Systems	1,833	10,000	8,167
Summer Intervention	0	23,328	23,328
School Improvement Incentive	0	8,085	8,085
Title I	462,437	484,544	22,107
Drug Free School Grant	5,828	12,012	6,184
Goals 2000	30	3,994	3,964
Improving Teacher Quality	90,013	94,435	4,422
Miscellaneous Federal Grants	4,574	25,798	21,224
Schoolnet	0	20,241	20,241
Self Funded Dental Program	33,241	49,349	16,108
Student Managed Activity	33,935	46,524	12,589

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE (Continued)

Ohio Revised Code 5705.10 provides that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

As of December 31, 2003 the School District reported a negative fund balance in the Food Service Fund (\$26,885), Management Information Systems Fund (\$1,167), Summer Intervention Fund (\$10,958), Title VI-B Fund (\$1,938), and Title V Fund (\$8,554).

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis); and
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (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	
	General
GAAP Basis	\$425,151
Revenue Accruals	(6,559)
Expenditure Accruals	(105,460)
Encumbrances	<u>(63,581)</u>
Budget Basis	<u>\$249,551</u>

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - 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 two 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 Districts 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 (STAROhio);
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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - 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 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 \$2,778,070 and the bank balance was \$2,863,837. Of the bank balance, \$231,394 was covered by federal deposit insurance and \$2,632,443 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and 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 Federal Deposit Insurance Corporation.

NOTE 7 - 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.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (Continued)

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	\$29,547,160	84.19%	\$29,894,150	81.48%
Public Utility	4,331,110	12.34%	5,574,920	15.19%
Tangible Personal Property	1,216,990	3.47%	1,220,393	3.33%
Total Assessed Value	<u>\$35,095,260</u>	<u>100.00%</u>	<u>\$36,689,463</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.51		\$33.51	

The School District receives property taxes from Pike, Scioto and Jackson Counties. The County Auditor periodically advances 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.

Accrued property taxes receivable represents delinquent taxes outstanding 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 amount 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 \$69,291 in the General Fund and \$14,051 in all other non-major governmental funds.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amount
Non-major Special Revenue Funds:	
Food Service	\$13,080
Misc. Federal Grants	367
Drug Free Schools	1,042
Class Size Reduction	11,876
Title I	31,919
Total All Non-major Special Revenue Funds	<u>\$58,284</u>

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS

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

	Ending Balance 6/30/2003	Additions	Deletions	Ending Balance 6/30/2004
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$120,410	\$0	\$0	\$120,410
Construction in Progress	467,773	0	(467,773)	0
Total Capital Assets, Not Being Depreciated	<u>588,183</u>	<u>0</u>	<u>(467,773)</u>	<u>120,410</u>
Capital Assets Being Depreciated				
Land Improvements	912,445	467,773	0	1,380,218
Buildings and Improvements	22,768,782	0	0	22,768,782
Furniture and Equipment	1,226,850	8,155	0	1,235,005
Vehicles	1,269,361	0	(46,782)	1,222,579
Textbooks	522,523	0	0	522,523
Total Capital Assets Being Depreciated	<u>26,699,961</u>	<u>475,928</u>	<u>(46,782)</u>	<u>27,129,107</u>
Less: Accumulated Depreciation:				
Land Improvements	(68,433)	(45,622)	0	(114,055)
Buildings and Improvements	(1,093,788)	(725,341)	0	(1,819,129)
Furniture and Equipment	(317,618)	(80,137)	0	(397,755)
Vehicles	(1,143,313)	(46,933)	46,782	(1,143,464)
Textbooks	(502,829)	(13,129)	0	(515,958)
Total Accumulated Depreciation	<u>(3,125,981)</u>	<u>(911,162)</u>	<u>46,782</u>	<u>(3,990,361)</u>
Total Capital Assets Being Depreciated, Net	<u>23,573,980</u>	<u>(435,234)</u>	<u>0</u>	<u>23,138,746</u>
Governmental Capital Assets, Net	<u>\$24,162,163</u>	<u>(\$435,234)</u>	<u>(\$467,773)</u>	<u>\$23,259,156</u>

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$843,362
Vocational	173
Support Services:	
Pupil	267
Administration	2,405
Operation and Maintenance of Plant	5,809
Pupil Transportation	46,933
Non-Instructional Services	12,213
Total Depreciation Expense	<u>\$911,162</u>

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Motorists Mutual Insurance Company for property and fleet insurance, and professional liability insurance coverage. Coverages provided are as follows:

Building and Contents-80% Co-insurance (\$1,000 deductible)	\$24,725,532
Boiler and Machinery-80% Co-insurance (\$5,000 deductible)	22,919,232
Crime Insurance	4,000
Automobile Liability	300,000
Uninsured Motorists	300,000
Public Official Bonds: Treasurer / Superintendent / Board President (each)	20,000
Assistant Treasurer	3,000
Blanket bond	5,000

During fiscal year 2004, the School District participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverages, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 14)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Bodily Injury and Property Damage Limit - Each Occurrence and Sexual Abuse Injury Limit - Each Offense	\$1,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
General Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Employer's Liability:	
Bodily Injury by Accident - Each Accident	1,000,000
Bodily Injury by Disease - Endorsement Limit	1,000,000
Bodily Injury by Disease - Each Employee	1,000,000
Employee Benefits Liability:	
Per Claim/Aggregate Limits	\$1,000,000/\$3,000,000
Educational Legal Liability (\$5,000 deductible):	
Errors and Omissions Injury/Aggregate Limits	\$1,000,000/\$2,000,000
Defense Costs/Aggregate Cap	\$1,000,000/\$1,000,000
Employment Practices Injury/Aggregate Limit	\$1,000,000/\$2,000,000

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). 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 participants individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling arrangement" ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRPs selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

Dental insurance is offered to employees through a self-insurance fund accounted for within the General Fund. Coresource is the School Districts third party administrator who informs the School District of claim payments needed each week. Coresource provides an actuarial study each year and advises the School District as to any change needed in premium payments to the internal service fund. The claims liability of \$2,149 reported in the Internal Service Fund at June 30, 2003 is based on an estimate provided by Coresource, and the requirements of *GASB Statement No. 30 Risk Financing Omnibus*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past three fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2001	\$4,053	\$47,202	\$47,025	\$4,230
2002	4,230	50,451	51,751	2,930
2003	9,536	45,278	52,665	2,149

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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. For fiscal year 2004, 9.09% was the portion allocated to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School Districts required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$84,430, \$71,364, and \$51,384, respectively; 35.5 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$61,502 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan 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. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090, or by visiting the STRS Ohio Web site at 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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(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 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary 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.

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(Continued)

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. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School Districts required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$345,607, \$413,361, and \$292,541, respectively; 84 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$53,850 represents the unpaid contribution for fiscal year 2003 and is recorded as a liability within the respective funds.

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 STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 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 Stabilization Fund. For the School District, this amount equaled \$27,451 for fiscal year 2004. STRS pays health care benefits from the Health Care Stabilization 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 percent of the premium. After the allocation for basic benefits, the remainder of the employers 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 members 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 \$85,569.

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.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - 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 10 to 25 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators, with the exception of the Superintendent and Treasurer, do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days.

B. Life Insurance and Health Care Benefits

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

C. Deferred Compensation

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

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School Districts long-term obligations during fiscal year 2004 were as follows:

	Obligations Outstanding 6/30/03	Additions	Deductions	Obligations Outstanding 6/30/04	Due in One Year
1998 School Improvement General Obligation Bonds – 4.0% - 5.0%	\$1,195,000	\$0	\$40,000	\$1,155,000	\$45,000
Compensated Absences	266,866	52,527	0	319,393	0
Total General Long-Term Obligations	\$1,461,866	\$52,527	\$40,000	\$1,474,393	\$45,000

Compensated absences will be paid from the fund from which the employees are paid.

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

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

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$45,000	\$59,226	\$104,226
2006	45,000	57,156	102,156
2007	50,000	54,935	104,935
2008	50,000	52,572	102,572
2009	55,000	50,065	105,065
2010-2014	310,000	202,048	512,048
2015-2019	405,000	101,750	506,750
Thereafter	195,000	9,875	204,875
Total	<u>\$1,155,000</u>	<u>\$587,627</u>	<u>\$1,742,627</u>

The School District's overall legal debt margin was \$2,100,276 with an unvoted debt margin of \$36,689 at June 30, 2004.

NOTE 14 - GROUP PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - 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.

Ohio School Plan - The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

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 \$38,120 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career Technology Center, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

The Pilasco-Ross Special Education Regional Resource Center - The Pilasco-Ross Special Education Regional Resource Center (Pilasco-Ross) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Eastern Local School District's Superintendent is an alternate for the Pilasco-Ross Board. Financial information can be obtained by contacting the fiscal agent, Jim Tordiff, Treasurer, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

NOTE 16 - 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 or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The School District is 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 instructional materials, capital acquisition, and bus purchases. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Budget Stablization
Set-aside Reserve Balance as of June 30, 2003	\$188,431	\$0	\$29,239
Current year set-aside requirement	108,754	108,754	0
Current year offsets and prior year carryover	0	(1,463,850)	0
Qualifying disbursements	(62,151)	(47,480)	0
Set-aside Reserve Balance as of June 30, 2004	<u>\$235,034</u>	<u>(\$1,402,576)</u>	<u>\$29,239</u>

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

The School District had offset and qualifying disbursements during the year that reduced the set-aside amount below zero in the Capital Acquisition Reserve. This extra amount may be carried forward and used to reduce the set-aside requirements of future year.

NOTE 17 - 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 18 - 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..."

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 19 - INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$50,115	\$0
Non Major Funds:		
Eisenhower	6,764	0
Title I	0	4,914
Drug Free	1,515	0
Misc. Federal Grant	3,937	0
Food Service	0	40,653
Management Info.	0	3,167
Reducing Class Size	0	7,301
Summer Intervention	0	6,296
Total All Funds	<u>\$62,331</u>	<u>\$62,331</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 – INTERFUND ACTIVITY (Continued)

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2005 fiscal year:

Interfund Loans	Receivable	Payable
General fund	\$ 23,190	\$ -
Nonmajor Special Revenue Funds		
Professional Development		2,034
Continuous Reform Grant	-	21,156
Total Nonmajor Special Revenue Funds	-	23,190
 Total Interfund Receivables/Payables	 \$ 23,190	 \$ 23,190

The amounts due to the General Fund are the result of the School District moving unrestricted monies to support grant funds whose grants operate on a reimbursement basis. The general fund will be reimbursed when funds become available in the nonmajor special revenue funds.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$0	\$6,264	\$0	\$6,264
School Breakfast Program	10.553	05-PU-03 05-PU-04	4,350 18,083		4,350 18,083	
Total School Breakfast Program			22,433	0	22,433	0
National School Lunch Program	10.555	LL-P4-03 LL-P4-04	19,643 83,170		19,643 83,170	
Total National School Lunch Program			102,813	0	102,813	0
Total Nutrition Cluster			125,246	6,264	125,246	6,264
Total United States Department of Agriculture			125,246	6,264	125,246	6,264
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies						
Total Title I Grants to Local Educational Agencies	84.010	C1-S1-03 C1-S1-04	22,709 395,456		48,367 352,904	0
			418,165	0	401,271	0
Special Education - Grants to States	84.027	6B-SF-02-P 6B-SF-03-P 6B-SF-04	(4,688) 29,625 132,230		37,672 119,941	
Total Special Education - Grants to States			157,167	0	157,613	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-03 DR-S1-04	325 12,536		10,938	
Total Safe and Drug-Free Schools and Communities - State Grants			12,861	0	10,938	0
Eisenhower Professional Development State Grants	84.281	MS-S1-01	(1,577)			
State Grants for Innovative Programs	84.298	C2-S1-04	10,020		10,020	
Education Technology State Grants	84.318	TJ-S1-03 TJ-S1-04	1,720 10,712		9,210	
Total Education Technology State Grants			12,432	0	9,210	0
Comprehensive School Reform Demonstration	84.332	RF-S1-02 RF-S1-03	2,494 60,631		21,845 61,632	
Total Comprehensive School Reform Demonstration			63,125	0	83,477	0
Rural Education	84.358	RU-S1-03 RU-S1-04	549 14,269		4,256 14,269	
Total Rural Education			14,818	0	18,525	0
Improving Teacher Quality State Grants	84.367	TR-S1-01 TR-S1-03 TR-S1-04	1,827 104,857		99 9,141 93,221	
Total Improving Teacher Quality State Grants			106,684	0	102,461	0
Total United States Department of Education			793,695	0	793,515	0
Total Federal Awards Receipts and Expenditures			\$918,941	\$6,264	\$918,761	\$6,264

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School 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 School District to maintain separate inventory records for purchased food and food received from the United States 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 United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – NEGATIVE RECEIPTS

Refund of money to the Ohio Department of Education due to expiration of period of availability resulted in a negative receipt in the amount of (\$1,577) for the Eisenhower Professional Development State Grant CFDA #84.281 and (\$4,688) for the Special Education-Grant to States CFDA #84.027.



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
Pike County
1170 Till Mill Road
Beaver, Ohio 45613

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions 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 School District's management dated March 31, 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 School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-001 and 2004-002. In a separate letter to the School District's management dated March 31, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Eastern Local School District
Pike 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 solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

March 31, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Eastern Local School District, Pike County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that 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 and Questioned Costs identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School 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 School District's compliance with those requirements.

As described in item 2004-003 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding Matching, Level of Effort, and Earmarking applying to its Title I Grants to Local Educational Agencies program. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School 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. In a separate letter to the School District's management dated March 31, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

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Internal Control Over Compliance

The School 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of 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 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected 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. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we have reported to the School District's management in a separate letter dated March 31, 2005.

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



Betty Montgomery
Auditor of State

March 31, 2005

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

FINDING NUMBER 2004-001 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Education can authorize the drawing of a warrant for the payment of the amount due. The Board of Education has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board of Education.

2. Blanket Certificate – Fiscal officers may prepare so-called "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Board of Education may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation account.

Thirty five percent of disbursements tested did not have funds certified as available on purchase orders until after the commitment was made and none of these disbursements met any of the three exceptions above.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend the School District Treasurer certify that the funds are or will be available prior to obligation by the School District. When prior certification is not possible, "then and now" certification should be used.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

As of May 31, 2004, actual expenditures plus encumbrances exceeded appropriations at the fund level for the following funds:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
Public School Support	\$12,603	\$13,904	\$1,301
School Improvement Models	10,150	11,885	1,735
District Managed Activity	22,969	26,429	3,460
Teacher Development	3,400	11,506	8,106
Managed Information Systems	1,833	10,000	8,167
Summer Intervention	0	23,328	23,328
School Improvement Incentive	0	8,085	8,085
Title I	462,437	484,544	22,107
Drug Free School Grant	5,828	12,012	6,184
Goals 2000	30	3,994	3,964
Improving Teacher Quality	90,013	94,435	4,422
Miscellaneous Federal Grants	4,574	25,798	21,224
Schoolnet	0	20,241	20,241
Self Funded Dental Program	33,241	49,349	16,108
Student Managed Activity	33,935	46,524	12,589

Noncompliance with this code section may result in deficits at year end.

The School District Treasurer should deny payment requests exceeding appropriations. In addition, we recommend the School District Treasurer periodically compare expenditures plus encumbrances with the appropriation authority and obtain approval to amend as needed.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2004-003
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA # 84.010
Federal Award Number/Year	C1-S1-04
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Matching, Level of Effort, and Earmarking

Title I, Part A, Section 1120A(b) of Elementary and Secondary Education Act (ESEA) (20 U.S.C. 6321(b)), provides that a Local Educational Agency (LEA) may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

In the following instances, supplanting has occurred:

- The LEA used Federal funds (except Bilingual) to provide services that the LEA was required to make available under Federal, State, or local laws.
- The LEA used Federal funds to provide services that the LEA provided with non-Federal funds in the prior year.
- The LEA used Title I, Part A or MEP (84.011) funds to provide services for participating children that the LEA provided with non-Federal funds for nonparticipating children.

The School District used Federal funds to provide services that the School District provided with non-Federal funds in the prior year, since it compensated a guidance counselor for a portion of her salary totaling \$17,609 in fiscal year 2004, which it did not do in fiscal year 2003. Therefore, we consider \$17,609 to be questioned costs.

We recommend the School District not use Federal funds to provide services that it provided with non-Federal funds in the prior year.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Rev. Code Section 5705.41(B) – expenditures exceeded appropriations.	No	Not Corrected. Reissued as Finding Number 2004-002.
2003-002	Ohio Rev. Code Section 5705.39 – appropriations exceeded estimated resources	No	Partially Corrected. Noncompliance citation included in Management Letter.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315(c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	A memo will be sent to all staff explaining the procedure that requires a purchase order before items are purchased or obligated.	April 30, 2005	Lucille Cloud, Interim Treasurer
2004-002	Appropriations will be monitored more closely and amendments approved by the Board of Education when needed and Amended Certificates of Estimated Resources obtained as needed.	April 30, 2005	Lucille Cloud, Interim Treasurer
2004-004	Federal funds will not be charged for any current employee currently being paid with non-federal funds in the future.	April 30, 2005	Marsha Clark, Grant Coordinator Lucille Cloud, Interim Treasurer



**Auditor of State
Betty Montgomery**

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**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 17, 2005**