



Mary Taylor, CPA
Auditor of State

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	15
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	18
Statement of Net Assets – Proprietary Fund.....	20
Statement of Revenues, Expenses, and Changes In Fund Net Assets – Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Net Assets – Fiduciary Funds	23
Statement of Changes in Net Assets – Fiduciary Fund.....	24
Notes to the Basic Financial Statements	25
Federal Awards Expenditures Schedule.	51
Notes to the Federal Awards Expenditures Schedule.....	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.	55

EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Schedule of Findings.....	57



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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 21, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

March 21, 2007

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

The discussion and analysis of Eaton Community School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- ❑ In total, net assets decreased \$160,545. Net assets of governmental activities decreased \$182,537, which represents a 1.9% decrease from 2005. Net assets of business-type activities increased \$21,992 or 16.3% from 2005.
- ❑ General revenues accounted for \$18,597,879 in revenue or 91.2% of all revenues for governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,794,946 or 8.8% of total revenues of \$20,392,825.
- ❑ The District had \$20,575,362 in expenses related to governmental activities; only \$1,794,946 of these expenses was offset by program specific charges for services, grants or contributions. General revenues of \$18,597,879 were not adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$17,099,384 in revenues and \$16,348,784 in expenditures. The general fund's fund balance increased \$721,524 to \$3,169,025.
- ❑ Net assets for the enterprise fund increased \$21,992. This was attributable to increases federal grants receipts.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

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

Government-wide Statements

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

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

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

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

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

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

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

Fund Financial Statements

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

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

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2006 compared to 2005.

	Governmental Activities		Business-type Activities		Total	
	2006	Restated 2005	2006	Restated 2005	2006	2005
Current and other assets	\$17,247,948	\$14,697,382	\$107,825	\$81,869	\$17,355,773	\$14,779,251
Capital assets, Net	34,181,890	34,684,754	166,640	176,676	34,348,530	34,861,430
Total assets	51,429,838	49,382,136	274,465	258,545	51,704,303	49,640,681
Long-term debt outstanding	30,678,378	30,769,548	22,955	22,238	30,701,333	30,791,786
Other liabilities	11,403,015	9,081,606	94,831	101,620	11,497,846	9,183,226
Total liabilities	42,081,393	39,851,154	117,786	123,858	42,199,179	39,975,012
Net assets						
Invested in capital assets, net of related debt	5,019,318	5,327,731	166,640	176,676	5,185,958	5,504,407
Restricted	2,857,833	4,427,065	0	0	2,857,833	4,427,065
Unrestricted	1,471,294	(223,814)	(9,961)	(41,989)	1,461,333	(265,803)
Total net assets	\$9,348,445	\$9,530,982	\$156,679	\$134,687	\$9,505,124	\$9,665,669

The restricted net assets of the District decreased by 35% during the 2006 fiscal year and the unrestricted net assets experienced an increase by a similar dollar amount. Since the District completed construction of the new school buildings the liability associated with a portion of the proceeds from the 2002 and 2005 bond issues which was previously consuming net assets of capital projects, is now associated with the net assets invested in capital assets.

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 compared to 2005:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for Services and Sales	\$795,786	\$786,746	\$548,122	\$519,633	\$1,343,908	\$1,306,379
Operating Grants and Contributions	999,160	1,042,654	289,191	222,206	1,288,351	1,264,860
General revenues:						
Property and Income Taxes	9,949,561	8,806,262	0	0	9,949,561	8,806,262
Grants and Entitlements	8,236,404	7,689,366	0	0	8,236,404	7,689,366
Other	411,914	329,591	0	0	411,914	329,591
Total revenues	20,392,825	18,654,619	837,313	741,839	21,230,138	19,396,458
Program Expenses						
Instruction	11,144,042	10,807,281	0	0	11,144,042	10,807,281
Support Services:						
Pupils	928,665	879,708	0	0	928,665	879,708
Instructional Staff	729,096	634,103	0	0	729,096	634,103
Board of Education	15,907	14,433	0	0	15,907	14,433
Administration	1,627,063	1,511,161	0	0	1,627,063	1,511,161
Fiscal Services	572,187	539,176	0	0	572,187	539,176
Business	1,654	1,794	0	0	1,654	1,794
Operation and Maintenance of Plant	1,992,560	1,491,244	0	0	1,992,560	1,491,244
Pupil Transportation	1,317,755	1,049,141	0	0	1,317,755	1,049,141
Central	87,726	79,276	0	0	87,726	79,276
Community Services	15,870	431	0	0	15,870	431
Extracurricular Activities	628,898	622,490	0	0	628,898	622,490
Debt Service:						
Interest and Fiscal Charges	1,513,939	1,406,833	0	0	1,513,939	1,406,833
Food Service	0	0	815,321	808,238	815,321	808,238
Total expenses	20,575,362	19,037,071	815,321	808,238	21,390,683	19,845,309
Total Change in Net Assets	(182,537)	(382,452)	21,992	(66,399)	(160,545)	(448,851)
Restated Beginning Net Assets	9,530,982	9,913,434	134,687	201,086	9,665,669	10,114,520
Ending Net Assets	\$9,348,445	\$9,530,982	\$156,679	\$134,687	\$9,505,124	\$9,665,669

Governmental Activities

Net assets of the District's governmental activities decreased \$182,537. During 2006 both revenues and expenditures increased by \$1.7 million and \$1.5 million dollars respectively. Increased tax revenues were the result of higher income and property tax collections. The income taxes increased due to higher tax base due to increased salaries in the region. Property taxes also increased due to the increases in appraised values. These increases helped to offset the increasing costs of salaries and benefits, as well as increased utility costs for the District. Despite the increased revenues and the District's attempts to limit expenditure increases, expenditures still slightly exceeded the revenues in 2006.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

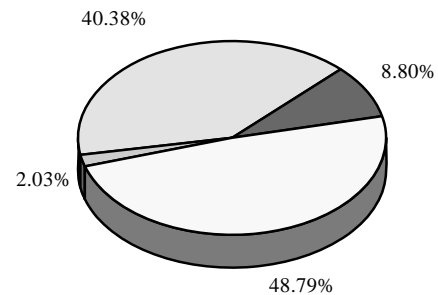
**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

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

Property and income taxes made up 48.79% of revenues for governmental activities for Eaton Community Schools in fiscal year 2006. The District's reliance upon tax revenues is demonstrated by the following graph:

Revenue Sources	2006	Percent of Total
General Grants	\$8,236,404	40.38%
Program Revenues	1,794,946	8.80%
General Tax Revenues	9,949,561	48.79%
General Other	411,914	2.03%
Total Revenue	<u>\$20,392,825</u>	<u>100.00%</u>



Business-Type Activities

Net assets of the business-type activities increased \$21,992. This was mainly attributable to increased receipts of federal grants in 2006.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$5,447,364, which is above last year's balance of \$5,306,233. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)
General	\$3,169,025	\$2,459,877	\$709,148
Bond Retirement	1,047,555	1,059,147	(11,592)
Building	880,779	1,423,525	(542,746)
Other Governmental	350,005	363,684	(13,679)
Total	<u>\$5,447,364</u>	<u>\$5,306,233</u>	<u>\$141,131</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

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

	2006	2005	Increase
	Revenues	Revenues	(Decrease)
Taxes	\$8,228,531	\$7,231,427	\$997,104
Tuition	354,215	308,708	45,507
Transportation Fees	37,488	18,244	19,244
Investment Earnings	246,825	153,105	93,720
Extracurricular Activities	16,884	12,501	4,383
Class Materials and Fees	4,015	0	4,015
Intermediate Sources	19,548	0	19,548
Intergovernmental - State	8,169,667	7,612,599	557,068
All Other Revenue	22,211	55,383	(33,172)
Total	\$17,099,384	\$15,391,967	\$1,707,417

General Fund revenues in 2006 increased by 11.0% mostly due to increased tax collections from the tax reappraisal, and increased state foundation monies.

	2006	2005	Increase
	Expenditures	Expenditures	(Decrease)
Instruction	\$9,362,660	\$9,517,048	(\$154,388)
Supporting Services:			
Pupils	888,978	860,081	28,897
Instructional Staff	628,574	735,163	(106,589)
Board of Education	15,907	14,433	1,474
Administration	1,511,474	1,604,143	(92,669)
Fiscal Services	525,242	525,014	228
Business	1,654	1,794	(140)
Operation and Maintenance of Plant	1,775,506	1,526,912	248,594
Pupil Transportation	1,194,878	1,044,017	150,861
Central	79,949	75,022	4,927
Community Service	0	181	(181)
Extracurricular Activities	351,991	344,351	7,640
Capital Outlay	11,971	0	11,971
Debt Service			
Principal Retirement	0	55,000	(55,000)
Interest and Fiscal Charges	0	3,700	(3,700)
Total	\$16,348,784	\$16,306,859	\$41,925

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

The expenditures increased by \$41,925 compared to the prior year mostly due to increased utility costs.

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

During the course of fiscal year 2006 the District amended its General Fund budget several times, none significant.

General Fund budget basis revenue was \$16.7 million, which was above original budget estimates of \$16.0 million. The General Fund had an adequate fund balance to cover expenditures.

Bond Retirement Fund - The District's Bond Retirement fund balance remained relatively stable decreasing by only \$11,592, or 1.1%. Higher tax collections helped to offset by interest and fiscal charges.

Building Fund - The fund balance reported in the Building fund decreased by \$542,746 in 2006. This was due to capital outlays for the construction of the new school building.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006 the District had \$34,348,530 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. Of this total, \$34,181,890 was related to governmental activities and \$166,640 to the business-type activities. The following tables show fiscal year 2005 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$606,919	\$606,919	\$0
Land Improvements	1,407,561	1,407,561	0
Buildings and Improvements	31,601,973	31,601,973	0
Machinery and Equipment	5,065,442	4,865,615	199,827
Vehicles	1,546,641	1,695,507	(148,866)
Less: Accumulated Depreciation	(6,046,646)	(5,492,821)	(553,825)
Totals	\$34,181,890	\$34,684,754	(\$502,864)

	Business-Type Activities		Increase (Decrease)
	2006	2005	
Land	\$2,500	\$2,500	\$0
Buildings	162,766	162,766	0
Machinery and Equipment	240,495	240,495	0
Less: Accumulated Depreciation	(239,121)	(229,085)	(10,036)
Totals	\$166,640	\$176,676	(\$10,036)

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

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

Additional information on the District's capital assets can be found in Note 8.

Debt

At June 30, 2006, the District had \$28.7 million in bonds outstanding, \$330,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2006:

	<u>2006</u>	<u>2005</u>
Governmental Activities:		
General Obligation Bonds:		
School Improvement	\$28,669,985	\$28,999,985
Interest Accretion	492,587	357,038
Compensated Absences	<u>1,515,806</u>	<u>1,412,525</u>
Total Governmental Activities	30,678,378	30,769,548
Business-Type Activities:		
Compensated Absences	<u>22,955</u>	<u>22,238</u>
Totals	<u><u>\$30,701,333</u></u>	<u><u>\$30,791,786</u></u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2006, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

ECONOMIC FACTORS

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

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

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Priscilla Dodson, Treasurer of Eaton Community School District.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2006***

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 5,241,970	\$ 74,810	\$ 5,316,780
Receivables:			
Taxes	11,042,585	0	11,042,585
Accounts	7,788	20	7,808
Intergovernmental	54,120	22,503	76,623
Interest	22,105	0	22,105
Inventory of Supplies at Cost	82,729	10,492	93,221
Restricted Assets:			
Cash and Cash Equivalents	778,651	0	778,651
Deferred Loss on Early Retirement of Debt	18,000	0	18,000
Capital Assets not Being Depreciated	606,919	0	606,919
Capital Assets being Depreciated, Net	33,574,971	166,640	33,741,611
Total Assets	<u>51,429,838</u>	<u>274,465</u>	<u>51,704,303</u>
Liabilities:			
Accounts Payable	213,000	875	213,875
Accrued Wages and Benefits	1,391,039	55,596	1,446,635
Intergovernmental Payable	448,312	38,360	486,672
Deferred Revenue - Taxes	9,273,766	0	9,273,766
Accrued Interest Payable	76,898	0	76,898
Long Term Liabilities:			
Due Within One Year	402,150	0	402,150
Due in More Than One Year	30,276,228	22,955	30,299,183
Total Liabilities	<u>42,081,393</u>	<u>117,786</u>	<u>42,199,179</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	5,019,318	166,640	5,185,958
Restricted For:			
Capital Projects	1,079,562	0	1,079,562
Debt Service	1,024,950	0	1,024,950
Other Purposes	753,321	0	753,321
Unrestricted (Deficit)	1,471,294	(9,961)	1,461,333
Total Net Assets	<u>\$ 9,348,445</u>	<u>\$ 156,679</u>	<u>\$ 9,505,124</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 11,144,042	\$ 474,391	\$ 924,545
Support Services:			
Pupils	928,665	0	9,887
Instructional Staff	729,096	0	22,026
Board of Education	15,907	0	0
Administration	1,627,063	0	24,780
Fiscal Services	572,187	0	0
Business	1,654	0	0
Operation and Maintenance of Plant	1,992,560	20,406	0
Pupil Transportation	1,317,755	37,488	10,433
Central	87,726	0	7,489
Community Services	15,870	0	0
Extracurricular Activities	628,898	263,501	0
Interest and Fiscal Charges	1,513,939	0	0
Total Governmental Activities	20,575,362	795,786	999,160
Business-Type Activities:			
Food Service	815,321	548,122	289,191
Total Business-Type Activities	815,321	548,122	289,191
Totals	\$ 21,390,683	\$ 1,343,908	\$ 1,288,351

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

Income Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated

Net Assets End of Year

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (9,745,106)	\$ 0	\$ (9,745,106)
(918,778)	0	(918,778)
(707,070)	0	(707,070)
(15,907)	0	(15,907)
(1,602,283)	0	(1,602,283)
(572,187)	0	(572,187)
(1,654)	0	(1,654)
(1,972,154)	0	(1,972,154)
(1,269,834)	0	(1,269,834)
(80,237)	0	(80,237)
(15,870)	0	(15,870)
(365,397)	0	(365,397)
(1,513,939)	0	(1,513,939)
(18,780,416)	0	(18,780,416)
0	21,992	21,992
0	21,992	21,992
(18,780,416)	21,992	(18,758,424)
6,427,570	0	6,427,570
1,588,929	0	1,588,929
1,933,062	0	1,933,062
8,236,404	0	8,236,404
286,309	0	286,309
125,605	0	125,605
18,597,879	0	18,597,879
(182,537)	21,992	(160,545)
9,530,982	134,687	9,665,669
\$ 9,348,445	\$ 156,679	\$ 9,505,124

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Balance Sheet Governmental Funds June 30, 2006

	General	Bond Retirement	Building	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 2,906,200	\$ 988,102	\$ 979,553	\$ 368,115	\$ 5,241,970
Receivables:					
Taxes	9,318,142	1,724,443	0	0	11,042,585
Accounts	264	0	0	7,524	7,788
Intergovernmental	10,853	0	0	43,267	54,120
Interest	18,230	0	3,875	0	22,105
Inventory Held for Resale	82,729	0	0	0	82,729
Restricted Assets:					
Cash and Cash Equivalents	778,651	0	0	0	778,651
Total Assets	\$ 13,115,069	\$ 2,712,545	\$ 983,428	\$ 418,906	\$ 17,229,948
Liabilities:					
Accounts Payable	89,577	0	102,649	20,774	213,000
Accrued Wages and Benefits	1,343,950	0	0	47,089	1,391,039
Intergovernmental Payable	447,274	0	0	1,038	448,312
Deferred Revenue - Taxes	8,065,243	1,664,990	0	0	9,730,233
Total Liabilities	9,946,044	1,664,990	102,649	68,901	11,782,584
Fund Balances:					
Reserved for Encumbrances	438,952	0	43,626	30,185	512,763
Reserved for Supplies Inventory	82,709	0	0	0	82,709
Reserved for Debt Service	0	973,765	0	0	973,765
Reserved for Property Taxes	307,440	73,790	0	0	381,230
Statutory Reserves	778,651	0	0	0	778,651
Unreserved, Undesignated in:					
General Fund	1,561,273	0	0	0	1,561,273
Special Revenue Funds	0	0	0	121,037	121,037
Capital Projects Funds	0	0	837,153	198,783	1,035,936
Total Fund Balances	3,169,025	1,047,555	880,779	350,005	5,447,364
Total Liabilities and Fund Balances	\$ 13,115,069	\$ 2,712,545	\$ 983,428	\$ 418,906	\$ 17,229,948

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2006

Total Governmental Fund Balances \$ 5,447,364

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 34,181,890

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 456,467

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

General Obligation Bonds Payable	(28,651,985)	
Interest Accretion	(492,587)	
Compensated Absences Payable	(1,515,806)	
Accrued Interest Payable	(76,898)	(30,737,276)

Net Assets of Governmental Activities **\$ 9,348,445**

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Building	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 8,228,531	\$ 1,571,462	\$ 0	\$ 0	\$ 9,799,993
Tuition	354,215	0	0	0	354,215
Transportation Fees	37,488	0	0	0	37,488
Investment Earnings	246,825	1,192	38,292	0	286,309
Extracurricular Activities	16,884	0	0	246,617	263,501
Class Materials and Fees	4,015	0	0	116,161	120,176
Intermediate Sources	19,548	0	0	18,580	38,128
Intergovernmental - State	8,169,667	157,532	0	76,655	8,403,854
Intergovernmental - Federal	0	0	0	832,033	832,033
All Other Revenue	22,211	1,115	11,381	73,816	108,523
Total Revenue	17,099,384	1,731,301	49,673	1,363,862	20,244,220
Expenditures:					
Current:					
Instruction	9,362,660	0	3,985	1,047,026	10,413,671
Supporting Services:					
Pupils	888,978	0	0	10,963	899,941
Instructional Staff	628,574	0	0	39,194	667,768
Board of Education	15,907	0	0	0	15,907
Administration	1,511,474	0	0	71,886	1,583,360
Fiscal Services	525,242	37,387	0	868	563,497
Business	1,654	0	0	0	1,654
Operation and Maintenance of Plant	1,775,506	0	30,648	0	1,806,154
Pupil Transportation	1,194,878	0	0	0	1,194,878
Central	79,949	0	0	7,489	87,438
Community Services	0	0	15,870	0	15,870
Extracurricular Activities	351,991	0	0	225,466	577,457
Capital Outlay	11,971	0	541,916	7,379	561,266
Debt Service:					
Principal Retirement	0	330,000	0	0	330,000
Interest and Fiscal Charges	0	1,375,506	0	0	1,375,506
Total Expenditures	16,348,784	1,742,893	592,419	1,410,271	20,094,367
Excess (Deficiency) of Revenues Over Expenditures	750,600	(11,592)	(542,746)	(46,409)	149,853
Other Financing Sources (Uses):					
Sale of Capital Assets	3,654	0	0	0	3,654
Transfers In	1,457	0	0	34,187	35,644
Transfers Out	(34,187)	0	0	(1,457)	(35,644)
Total Other Financing Sources (Uses)	(29,076)	0	0	32,730	3,654
Net Change in Fund Balance	721,524	(11,592)	(542,746)	(13,679)	153,507
Fund Balances (Deficits) at Beginning of Year	2,459,877	1,059,147	1,423,525	363,684	5,306,233
Increase (Decrease) in Inventory Reserve	(12,376)	0	0	0	(12,376)
Fund Balances (Deficits) End of Year	\$ 3,169,025	\$ 1,047,555	\$ 880,779	\$ 350,005	\$ 5,447,364

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds \$ 153,507

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

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

Capital Outlay	530,918	
Depreciation Expense	<u>(1,029,488)</u>	(498,570)

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	(4,294)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 149,245

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

General Obligation Bond Principal Payment	330,000	
Interest Accretion Expense	(135,549)	
Deferred Loss on Early Retirement of Debt	<u>(3,000)</u>	191,451

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 116

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

Compensated Absences	(161,616)	
Change in Inventory	<u>(12,376)</u>	<u>(173,992)</u>

Change in Net Assets of Governmental Activities \$ (182,537)

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006***

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Taxes	\$ 7,465,617	\$ 7,751,534	\$ 7,894,138	\$ 142,604
Tuition	334,987	354,215	354,215	0
Transportation Fees	25,836	27,319	27,319	0
Investment Earnings	228,740	241,869	241,869	0
Extracurricular Activities	15,967	16,882	16,884	2
Class Material and Fees	3,797	3,998	4,015	17
Intermediate Sources	18,487	19,548	19,548	0
Intergovernmental - State	7,726,190	8,169,667	8,169,667	0
All Other Revenues	38,427	40,633	40,633	0
Total Revenues	<u>15,858,048</u>	<u>16,625,665</u>	<u>16,768,288</u>	<u>142,623</u>
Expenditures:				
Current:				
Instruction	9,226,199	9,567,076	9,567,076	0
Support Services:				
Pupils	858,555	890,275	890,275	0
Instructional Staff	662,000	686,459	686,459	0
Board of Education	15,753	16,335	16,335	0
Administration	1,546,194	1,603,321	1,603,321	0
Fiscal Services	511,233	530,122	530,122	0
Business	1,591	1,650	1,650	0
Operation and Maintenance of Plant	1,889,381	1,959,188	1,959,188	0
Pupil Transportation	1,191,293	1,235,308	1,235,308	0
Central	76,450	79,275	79,275	0
Extracurricular Activities	337,806	350,287	350,287	0
Capital Outlay	26,010	26,971	26,971	0
Debt Service:				
Principal Retirement	13,750	0	0	0
Interest and Fiscal Charges	925	0	0	0
Total Expenditures	<u>16,357,140</u>	<u>16,946,267</u>	<u>16,946,267</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(499,092)	(320,602)	(177,979)	142,623

(Continued)

EATON COMMUNITY SCHOOL DISTRICT, OHIO

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Proceeds from the Sale of Capital Assets	37,000	3,654	3,654	0
Transfers In	1,457	1,457	1,457	0
Transfers Out	(54,255)	(34,187)	(34,187)	0
Advances In	50,809	239,907	239,907	0
Advances Out	(190,000)	(189,098)	(189,098)	0
Refund of Prior Year's Receipts	(160)	(160)	(160)	0
Total Other Financing Sources (Uses):	<u>(155,149)</u>	<u>21,573</u>	<u>21,573</u>	<u>0</u>
Net Change in Fund Balance	(654,241)	(299,029)	(156,406)	142,623
Fund Balance at Beginning of Year	2,743,363	2,743,363	2,743,363	0
Prior Year Encumbrances	<u>572,736</u>	<u>572,736</u>	<u>572,736</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 2,661,858</u>	<u>\$ 3,017,070</u>	<u>\$ 3,159,693</u>	<u>\$ 142,623</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Net Assets
Proprietary Fund
June 30, 2006***

	Business-Type Activities <u>Enterprise Fund</u>
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 74,810
Receivables:	
Accounts	20
Intergovernmental	22,503
Inventory of Supplies at Cost	10,492
<i>Total Current Assets</i>	<u>107,825</u>
<i>Non Current Assets:</i>	
Capital Assets, Net	<u>166,640</u>
Total Assets	<u>274,465</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	875
Accrued Wages and Benefits	55,596
Intergovernmental Payable	38,360
<i>Total Current Liabilities</i>	<u>94,831</u>
<i>Long Term Liabilities:</i>	
Compensated Absences Payable	<u>22,955</u>
<i>Total Long Term Liabilities</i>	<u>22,955</u>
Total Liabilities	<u>117,786</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	166,640
Unrestricted	<u>(9,961)</u>
Total Net Assets	<u>\$ 156,679</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Business-Type Activities
	<u>Enterprise Fund</u>
Operating Revenues:	
Sales	\$ 546,546
All Other Revenue	175
Total Operating Revenues	<u>546,721</u>
Operating Expenses:	
Salaries and Wages	282,544
Fringe Benefits	172,161
Contractual Services	5,773
Supplies and Materials	344,177
Depreciation	10,036
Other Operating Expense	630
Total Operating Expenses	<u>815,321</u>
Operating Loss	(268,600)
Nonoperating Revenue:	
Operating Grants	289,191
Investment Earnings	1,401
Total Nonoperating Revenues	<u>290,592</u>
Change in Net Assets	21,992
Net Assets Beginning of Year - Restated	<u>134,687</u>
Net Assets End of Year	<u>\$ 156,679</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2006

	Business-Type Activities
	Enterprise Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$546,701
Cash Payments for Goods and Services	(284,685)
Cash Payments to Employees for Services and Benefits	(457,377)
Net Cash Used for Operating Activities	(195,361)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	197,102
Net Cash Provided by Noncapital Financing Activities	197,102
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	1,475
Net Cash Provided by Investing Activities	1,475
Net Increase in Cash and Cash Equivalents	3,216
Cash and Cash Equivalents at Beginning of Year	71,594
Cash and Cash Equivalents at End of Year	\$74,810
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$268,600)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation Expense	10,036
Donated Commodities Used During the Year	69,586
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(20)
Increase in Inventory	(291)
Decrease in Accounts Payable	(3,400)
Decrease in Accrued Wages and Benefits	(2,696)
Decrease in Intergovernmental Payables	(693)
Increase in Compensated Absences	717
Total Adjustments	73,239
Net Cash Used for Operating Activities	(\$195,361)

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Net Assets
Fiduciary Funds
June 30, 2006***

	Private Purpose Trust Funds	Agency Funds	Total
Assets:			
Cash and Cash Equivalents	\$ 198,425	\$ 77,737	\$ 276,162
Capital Assets, Net	2,645	0	2,645
Total Assets	<u>201,070</u>	<u>77,737</u>	<u>278,807</u>
Liabilities:			
Accounts Payable	113	0	113
Due to Students	0	77,737	77,737
Total Liabilities	<u>113</u>	<u>77,737</u>	<u>77,850</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,645	0	2,645
Held in Trust	198,312	0	198,312
Total Net Assets	<u>\$ 200,957</u>	<u>\$ 0</u>	<u>\$ 200,957</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006***

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Sales	\$ 826
Private Donations	11,139
Total Contributions	<u>11,965</u>
Investment Earnings:	
Interest	7,290
Net Decrease in the Fair Value of Investments	<u>(468)</u>
Total Investment Earnings	<u>6,822</u>
Total Additions	<u>18,787</u>
Deductions:	
Administrative Expenses	3,127
Community Gifts, Awards and Scholarships	<u>12,848</u>
Total Deductions	<u>15,975</u>
Change in Net Assets	2,812
Net Assets at Beginning of Year - Restated	<u>198,145</u>
Net Assets End of Year	<u><u>\$ 200,957</u></u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 92 non-certified and approximately 145 certified teaching personnel and administrative employees providing education to 2,270 students.

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

Eaton Community School District participates in two jointly governed organizations, the Southwestern Ohio Computer Association (SWOCA) and the Southwestern Ohio Educational Purchasing Council (SOEPC). SWOCA provides the data processing services needed by the participating school districts. D. Russell Lee Vocational School serves as the fiscal agent. SOEPC obtains prices for quality merchandise and services for participating school districts. See Note 14 for additional information.

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

B. Basis of Presentation - Fund Accounting

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types are used by the District:

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

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

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

Building Fund - This fund is used to account for the receipts and expenditures related to all special bond funds in the District. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures represent the costs of acquiring capital facilities, including real property.

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

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District’s own programs. The District’s two trust funds are private-purpose trust that account for scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation – Financial Statements

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

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

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

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Current property taxes measurable at June 30, 2006, of which are not intended to finance fiscal 2006 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2006 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

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

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

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

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

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

E. Budgetary Process

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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

1. Tax Budget

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

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2006.

3. Appropriations

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Lapsing of Appropriations

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

5. Basis of Budgeting

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

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
GAAP Basis (as reported)	\$721,524
Increase (Decrease):	
Accrued Revenues	
at June 30, 2006	
received during FY 2007	(1,282,246)
Accrued Revenues	
at June 30, 2005	
received during FY 2006	1,001,959
Accrued Expenditures	
at June 30, 2006	
paid during FY 2007	1,880,801
Accrued Expenditures	
at June 30, 2005	
paid during FY 2006	(1,953,286)
Encumbrances Outstanding	(525,158)
Budget Basis	<u><u>(\$156,406)</u></u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

During fiscal year 2006, cash and cash equivalents included amounts in demand deposits, short-term certificates of deposit with original maturities of three months or less, and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

The District pools its cash for investment and resource management purposes. The District's cash and cash equivalents represent Star Ohio investment and depository accounts. See Note 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts, which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, is recognized as revenue in the financial statements. See Note 4, "Cash, Cash Equivalents and Investments."

The District had invested funds in the State Treasury Asset Reserve of Ohio during 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

H. Inventory

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

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

2. Property, Plant and Equipment – Business Type Activities

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

3. Depreciation

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

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

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

K. Compensated Absences

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

L. Net Assets

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Pensions

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

N. Interfund Transactions

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

O. Restricted Assets

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

P. Reservations of Fund Balance

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

Q. Estimates

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

R. Operating Revenues and Expenses

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 2 – RESTATEMENT OF NET ASSETS

During 2006 fiscal year, the District had a reappraisal of the District’s capital assets, and increased the capitalization level from \$300 to \$500. The District also corrected the amount recorded for its 2002 series general obligation long-term bonds. The District previously was not recording interest accretion amounts on its capital appreciation bonds. The reappraisal and debt restatement caused the net assets of governmental activities, and the net assets of the Food Service Fund (business type activities) to be restated as follows:

	<u>Governmental Activities</u>	<u>Food Service Fund</u>
Net Assets as report June 30, 2005	\$5,959,523	\$63,326
Capital Asset Restatements	3,928,482	71,361
Long Term Debt Restatements	<u>(357,023)</u>	<u> </u>
Net Assets as restated June 30, 2005	<u>\$9,530,982</u>	<u>\$134,687</u>

NOTE 3 – ACCOUNTABILITY

Fund Deficit - The respective fund deficits at June 30, 2005 of \$112 in the Ohio Reads Grant Fund, \$648 in the Chapter I Fund, \$242 in the Poverty Aid Grant Fund, and \$433 in the Federal Grants Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis, which are greater than expenditures recognized on the budgetary basis. A deficit did not exist in these funds under the cash basis of accounting.

NOTE 4 - CASH AND CASH EQUIVALENTS

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

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits (Continued)

At year end the carrying amount of the District's deposits was \$6,143,050 and the bank balance was \$6,437,348. Not included in the bank balance is \$435, which represents cash on hand held by the District. Federal depository insurance covered \$319,636 of the bank balance and \$6,117,712 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's collateral pool not in the District's name	\$4,117,712
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	2,000,000
Total Balance	\$6,117,712

B. Investments

The District's investments at June 30, 2006 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$228,453	AAAm ¹	\$228,453	\$0	\$0
Total Investments	\$228,453		\$228,453	\$0	\$0

¹ Standard & Poor's

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

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

C. Reconciliation of Cash, Cash Equivalents and Investments

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

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$6,371,593	\$0
STAR Ohio	(228,543)	228,543
Per GASB Statement No. 3	\$6,143,050	\$228,543

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 5 - PROPERTY TAXES

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

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Eaton Community School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values upon which the fiscal year 2006 receipts were based are:

	2005 Second Half Collections	2006 First Half Collections
Agricultural/Residential and Other Real Estate	\$224,634,520	\$248,079,740
Public Utility Personal	9,276,470	8,938,160
Tangible Personal Property	39,271,893	40,764,316
Total Assessed Value	<u>\$273,182,883</u>	<u>\$297,782,216</u>
Tax rate per \$1,000 of assessed valuation	\$40.88	\$40.88

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, interest, accounts receivable and intergovernmental receivables.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 7 – INTERFUND TRANSACTIONS

Following is a summary of transfers in and out for all funds at June 30, 2006:

Fund	Transfer In	Transfer Out
General Fund	\$1,457	\$34,187
Nonmajor Governmental Fund:		
Uniform School Supplies Fund	34,187	0
Federal Grants Fund	0	1,457
Total All Funds	<u>\$35,644</u>	<u>\$35,644</u>

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2006:

Historical Cost:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
<i>Capital assets not being depreciated:</i>				
Land	\$606,919	\$0	\$0	\$606,919
<i>Capital assets being depreciated:</i>				
Land Improvements	1,407,561	0	0	1,407,561
Buildings and Improvement	31,601,973	0	0	31,601,973
Machinery and Equipment	4,865,615	354,019	(154,192)	5,065,442
Vehicles	1,695,507	176,899	(325,765)	1,546,641
Total Cost	<u>\$40,177,575</u>	<u>\$530,918</u>	<u>(\$479,957)</u>	<u>\$40,228,536</u>

Accumulated Depreciation:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
Land Improvements	\$0	(\$76,276)	\$0	(\$76,276)
Buildings and Improvement	(1,817,345)	(396,293)	0	(2,213,638)
Machinery and Equipment	(2,576,558)	(428,688)	152,858	(2,852,388)
Vehicles	(1,098,918)	(128,231)	322,805	(904,344)
Total Depreciation	<u>(\$5,492,821)</u>	<u>(\$1,029,488) *</u>	<u>\$475,663</u>	<u>(\$6,046,646)</u>
<i>Net Value:</i>	<u>\$34,684,754</u>			<u>\$34,181,890</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 8 - CAPITAL ASSETS (Continued)

A. Governmental Activities Capital Assets (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$594,585
Support Services:	
Pupils	7,557
Instructional Staff	58,085
Administration	29,855
Fiscal Services	5,727
Operations & Maintenance of Plant	163,791
Pupil Transportation	118,849
Central	288
Extracurricular Activities	<u>50,751</u>
Total Depreciation Expense	<u><u>\$1,029,488</u></u>

B. Business-Type Activities Capital Assets

Summary by Category at June 30, 2006:

Historical Cost:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
<i>Capital assets not being depreciated:</i>				
Land	\$2,500	\$0	\$0	\$2,500
<i>Capital assets being depreciated:</i>				
Buildings	162,766	0	0	162,766
Machinery and Equipment	240,495	0	0	240,495
Total Cost	<u>\$405,761</u>	<u>\$0</u>	<u>\$0</u>	<u>\$405,761</u>

Accumulated Depreciation:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
Buildings	(\$40,346)	(\$2,640)	\$0	(\$42,986)
Machinery and Equipment	(188,739)	(7,396)	0	(196,135)
Total Depreciation	<u>(\$229,085)</u>	<u>(\$10,036)</u>	<u>\$0</u>	<u>(\$239,121)</u>
<i>Net Value:</i>	<u>\$176,676</u>			<u>\$166,640</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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

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

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

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2005, (latest information available) 10.57% was allocated to fund the pension benefit and 3.43% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$357,564, \$328,200, and \$304,224, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. The portion of the 2005 employer contribution rate (latest information available) that was used to fund health care for the year 2005 was 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund health care benefits, including the surcharge amounted to \$87,603.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

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

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

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2005, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$1,080,972, \$1,098,368, and \$1,092,876, respectively, which were equal to the required contributions for each year.

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

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2005, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$77,212 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the bonds and compensated absences of the District for the year ended June 30, 2006 is as follows:

		Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006	Amount Due Within One Year
Governmental Activities:						
General Obligation Bonds:						
2002 School Improvement	2.25-5.75%	\$27,999,985	\$0	(\$185,000)	\$27,814,985	\$195,000
2005 School Improvement	2.50-5.00%	1,000,000	0	(145,000)	855,000	135,000
Total General Obligation Bonds		28,999,985	0	(330,000)	28,669,985	330,000
2002 Interest Accretion	8.26%	357,038	135,549	0	492,587	0
Compensated Absences		1,412,525	480,145	(376,864)	1,515,806	72,150
Total Governmental Activities		30,769,548	615,694	(706,864)	30,678,378	402,150
Business-Type Activities:						
Compensated Absences		22,238	10,272	(9,555)	22,955	0
Total Long-Term Obligations		\$30,791,786	\$625,966	(\$716,419)	\$30,701,333	\$402,150

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2006 follows:

Years	General Obligation Bonds		
	Principal	Interest	Total
2007	\$330,000	\$1,365,357	\$1,695,357
2008	460,000	1,352,069	1,812,069
2009	510,000	1,334,556	1,844,556
2010	635,000	1,312,825	1,947,825
2011	690,000	1,285,394	1,975,394
2012-2016	2,458,475	7,763,707	10,222,182
2017-2021	5,121,510	6,210,136	11,331,646
2022-2026	8,755,000	3,598,406	12,353,406
2027-2030	9,710,000	1,006,500	10,716,500
Totals	\$28,669,985	\$25,228,950	\$53,898,935

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

B. Defeasance of General Obligation Debt

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

The net proceeds of the 2005 School Improvement General Obligation Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts, which including interest earned, was and will be used to pay the principal and interest on the refunded bonds. The refunded General Obligation Bonds, which have a balance of \$880,000 at June 30, 2006, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advanced refunding.

NOTE 11 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2006, the reserve activity (cash-basis) was as follows:

	<u>Textbook Reserve</u>	<u>Capital Acquisition Reserve</u>	<u>Budget Stabilization Reserve</u>	<u>Total</u>
Set-aside Cash Balance as of June 30, 2005	\$93,773	\$591,489	\$43,754	\$729,016
Current Year Set-Aside Requirement	321,719	321,719	0	643,438
Qualifying Disbursements	<u>(309,663)</u>	<u>(284,140)</u>	<u>0</u>	<u>(593,803)</u>
Total	<u>\$105,829</u>	<u>\$629,068</u>	<u>\$43,754</u>	<u>\$778,651</u>
Cash Balance Carried Forward to FY 2007	<u>\$105,829</u>	<u>\$629,068</u>	<u>\$43,754</u>	<u>\$778,651</u>
Amount Restricted for Textbooks				\$105,829
Amount Restricted for Capital Acquisition				629,068
Amount Restricted for Budget Stabilization				43,754
Total Restricted Assets				<u>\$778,651</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 12 - RISK MANAGEMENT

A. Public Entity Risk Pool

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

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

B. Other Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2006 the District contracted with Indiana Insurance Company for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Indiana Insurance Company	General Liability	\$0
Indiana Insurance Company	Business	\$1,000
Indiana Insurance Company	Automobile	\$250 Comprehensive; \$250 Collision

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 13 - CONSTRUCTION COMMITMENTS

As of June 30, 2006, the District had the following commitments with respect to capital projects:

<u>Contractor</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Black & White Electric	\$90,615	October 2006
J-Tec	28,096	October 2006
TAC Control Solutions	6,842	November 2006
Total	<u>\$125,553</u>	

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA) is a jointly governed organization among a three county consortium of school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Board consists of one representative from each of the participating 30 school districts. During fiscal year 2006, the District paid \$40,413 to SWOCA.

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

Payments to SOEPC are made from the general fund. During fiscal year 2006, the School District paid \$12,633 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 15 – RELATED PARTY TRANSACTIONS

The food service director, Charolette Akers, runs the only banquet facility in town. The name of the banquet facility is Charolette's Banquet Center. During the 2006 fiscal year, the District paid \$1,084 to Charolette's Banquet Center.

Randy Titkemeyer, teacher, owns TNT Greenhouse. The District paid \$6,186.55 to TNT Greenhouse during the 2006 fiscal year.

NOTE 16 – SUBSEQUENT EVENTS

On October 10, 2006 the Board approved the issuance of \$23,280,000 in school improvement refunding bonds.

NOTE 17 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

B. Litigation

The District is not a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2006.

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**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program		10.550		\$36,947		\$36,947
Nutrition Cluster:						
National School Breakfast Program	043935-05PU-2006	10.553	\$16,979		\$16,979	
	043935-05PU-2005		3,562		3,562	
			<u>20,541</u>		<u>20,541</u>	
National School Lunch Program	043935 -LLP1-2006	10.555	613		613	
	043935 -LLP4-2006		135,386		135,386	
	043935 -LLP4-2005		33,995		33,995	
			<u>169,994</u>		<u>169,994</u>	
Total Nutrition Cluster			<u>190,535</u>		<u>190,535</u>	
Total U.S. Department of Agriculture			<u>190,535</u>	<u>36,947</u>	<u>190,535</u>	<u>36,947</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	043935-6BSF-2006	84.027	460,106		460,106	
Special Education - Preschool Grant	043935-PGS1-2006	84.173	6,170		6,170	
Total Special Education Cluster			<u>466,276</u>		<u>466,276</u>	
Grants to Local Educational Agencies (ESEA Title I)	043935 -C1S1-2006	84.010	226,387		220,523	
	043935 -C1S1-2005		33,721		39,670	
Total ESEA Title I			<u>260,108</u>		<u>260,193</u>	
Drug Free Schools	043935-DRS1-2006	84.186	9,887		9,887	
Title II Part D	043935-TJS1-2006	84.318	4,788		4,788	
Innovative Education Program (ESEA Title VI)	043935-C2S1-2006	84.298	6,442		6,442	
Title II Part A	043935-TRS1-2006	84.367	73,527		73,527	
	043935-TRS1-2005		603		6,410	
Total Title II Part A			<u>74,130</u>		<u>79,937</u>	
Total U.S. Department of Education			<u>821,631</u>		<u>827,523</u>	
<u>U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT ASSISTANCE</u>						
<i>Passed Through Ohio Department of Public Safety:</i>						
Disaster Assistance	EM-3198-OH	97.036	1,401		1,401	
Total U.S. Department of Federal Emergency Management Assistance			<u>1,401</u>		<u>1,401</u>	
Totals			<u>\$1,013,567</u>	<u>\$36,947</u>	<u>\$1,019,459</u>	<u>\$36,947</u>

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

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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 District's management dated March 21, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 21, 2007, we reported other matters related to noncompliance we deemed immaterial.

Eaton Community School District
Preble 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 the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

March 21, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Eaton Community School District, Preble County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Eaton Community School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program 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 when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 21, 2007

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I – CFDA #84.010 Special Education Cluster: CFDA #84.027 & #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

EATON COMMUNITY SCHOOL DISTRICT

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2007**