



Balestra, Harr & Scherer, CPAs, Inc.

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

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EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2014
Fiscal Year Audited Under GAGAS: 2014



Dave Yost • Auditor of State

Board of Education
Eastern Local School District
11479 US Highway 62
Winchester, Ohio 45697

We have reviewed the *Independent Auditor's Report* of the Eastern Local School District, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 19, 2014

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**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances To Net Position of Governmental Activities.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Budgetary Basis) and Actual – General Fund.....	15
Statement of Fiduciary Assets and Liabilities – Agency Fund.....	16
Notes to the Basic Financial Statements.....	17
Schedule of Expenditures and Receipts of Federal Awards.....	41
Notes to the Schedule of Expenditures and Receipts of Federal Awards.....	42
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	43
Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	45
Schedule of Findings OMB Circular A-133 Section §.505.....	47

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

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Independent Auditor's Report

Members of the Board of Education
Eastern Local School District
11479 US Highway 62
Winchester, Ohio 45697

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Brown County, Ohio, as of June 30, 2014, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
October 24, 2014

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The discussion and analysis of Eastern Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2014 are as follows:

- Net position of governmental activities decreased \$92,392.
- General revenues accounted for \$12,081,384 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions, accounted for \$2,926,882, or 20% of total revenues of \$15,008,266.
- The School District had \$15,100,658 in expenses related to governmental activities; only \$2,926,882 of these expenses were offset by program specific charges for services and sales, grants, and contributions.
- The School District has two major funds: the General Fund and the Bond Retirement Fund. All governmental funds had total revenues of \$15,218,763 and expenditures of \$14,468,612. The most significant change in fund balance was in the General Fund.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

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

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

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013.

Table 1
Net Position

	Governmental Activities	
	2014	2013*
Assets		
Current and Other Assets	\$ 9,334,402	\$ 8,760,717
Capital Assets, Net	42,669,118	43,819,305
Total Assets	52,003,520	52,580,022
Liabilities		
Long-term Liabilities	7,842,084	8,358,232
Current and Other Liabilities	1,369,509	1,387,915
Total Liabilities	9,211,593	9,746,147
Deferred Inflows of Resources		
Property Taxes not Levied to Finance Current Year Operations	3,199,095	3,148,651
Total Deferred Inflows of Resources	3,199,095	3,148,651
Net Position		
Net Investment in Capital Assets	35,679,118	36,369,305
Restricted	1,970,550	2,013,355
Unrestricted	1,943,164	1,302,564
Total Net Position	\$ 39,592,832	\$ 39,685,224

* As restated – see Note 22. Additionally, certain reclassifications were made to prior year amounts in order to conform with the 2014 presentation.

Current and other assets increased \$573,685. This increase is primarily due to an increase to equity in pooled cash and cash equivalents. Capital assets decreased as a result of current year depreciation and deletions which were partially offset by current year additions. Long-term liabilities decreased primarily due to principal payments on outstanding debt. Current and other liabilities decreased due to decreases in accrued wages and intergovernmental payable, which was partially offset by an increase in matured compensated absences payable.

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for the fiscal years ended June 30, 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013*</u>
Revenues		
Program Revenues		
Charges for Services and Sales	1,158,214	1,120,518
Operating Grants and Contributions	1,768,668	1,800,865
Total Program Revenues	<u>2,926,882</u>	<u>2,921,383</u>
General Revenues		
Property Taxes	4,341,315	4,551,842
Payments in Lieu of Taxes	49,894	78,345
Grants and Entitlements, Not Restricted to Specific Programs	7,581,768	7,480,841
Investment Earnings	23,877	9,078
Gifts and Donations, Not Restricted to Specific Programs	8,161	26,431
Gain on Sale of Capital Assets	-	7,844
Miscellaneous	76,369	85,921
Insurance Recoveries	-	67,640
Total General Revenues	<u>12,081,384</u>	<u>12,307,942</u>
Total Revenues	<u>15,008,266</u>	<u>15,229,325</u>
Program Expenses		
Instruction:		
Regular	6,041,017	5,707,587
Special	2,177,094	1,632,552
Vocational	118,651	99,593
Other	1,313,159	1,338,811
Support Services:		
Pupils	381,749	362,489
Instructional Staff	42,838	1,000,466
Board of Education	31,820	25,558
Administration	1,027,705	993,639
Fiscal	506,067	462,016
Business	4,157	4,745
Operation and Maintenance of Plant	1,148,013	1,471,101
Pupil Transportation	1,031,309	1,057,312
Central	153,463	45,547
Operation of Non-Instructional Services	604,263	640,853
Extracurricular Activities	186,962	238,152
Interest and Fiscal Charges	332,391	355,533
Total Expenses	<u>15,100,658</u>	<u>15,435,954</u>
Increase (Decrease) in Net Position	(92,392)	(206,629)
Net Position, Beginning of Year - As Restated	<u>39,685,224</u>	<u>39,891,853</u>
Net Position, End of Year	<u>\$ 39,592,832</u>	<u>\$ 39,685,224</u>

* As restated – see Note 22. Additionally, certain reclassifications were made to prior year amounts in order to conform with the 2014 presentation.

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Grants and entitlements not restricted to specific programs increased primarily due to increased foundation revenues. Regular instruction increased due to an increase in salaries and benefits for the teachers of the District and also classification changes from instructional staff. Special instruction increased due to increased special education services offered by the District and also classification changes from instructional staff. Instructional staff decreased primarily due to classification changes with regular instruction, special instruction, and central support services and also a reduction of aids and librarians. Operation and maintenance of plant decreased primarily due to decreased classroom facility maintenance expenditures.

Governmental Activities

General revenues of \$12,081,384 provide 80% of total revenues. Of this total, property taxes make up 36% and grants and entitlements make up 63% of total general revenues.

As indicated by governmental program expenses, instruction is emphasized. Regular instruction comprised 40% of governmental program expenses with special instruction comprising 14% of governmental expenses.

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

Table 3
 Governmental Activities

	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013*</u>
Instruction	\$ 9,649,921	\$ 7,937,823	\$ 8,778,543	\$ 7,306,825
Support Services	4,327,121	3,890,125	5,422,873	4,861,755
Operation of Non-Instructional Services	604,263	(53,139)	640,853	(61,708)
Extracurricular Activities	186,962	66,576	238,152	52,166
Interest and Fiscal Charges	332,391	332,391	355,533	355,533
Total	<u>\$ 15,100,658</u>	<u>\$ 12,173,776</u>	<u>\$ 15,435,954</u>	<u>\$ 12,514,571</u>

* Certain reclassifications were made to prior year amounts in order to conform with the 2014 presentation.

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had \$12,399,532 in revenues and \$11,826,594 in expenditures resulting in an increase in fund balance of \$572,938. The increase is due to revenues being greater than expenditures. The Bond Retirement Fund had \$893,200 in revenues and \$827,561 in expenditures resulting in a increase of fund balance of \$65,639.

General Fund Budgeting Highlights

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

Eastern Local School District, Brown County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

During the course of fiscal year 2014, the School District made amendments to its General Fund budget. Final budgeted total revenues were \$529,714 above the original budget of \$11,888,825. The variance is primarily due to higher than anticipated intergovernmental revenue. Final total budgeted expenditures were \$273,701 below the original budget of \$12,130,172. The variance is due primarily to a decrease in budgeted expenditures as a result of conservative budgeting by the School District. The General Fund's ending unobligated cash balance was \$2,732,875.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the School District had \$42,669,118 invested in its capital assets. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2014 balances compared to 2013.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2014	2013
Land	\$ 271,526	\$ 271,526
Land Improvements	8,787	6,252
Buildings and Improvements	39,831,610	40,745,662
Furniture and Equipment	2,414,929	2,619,669
Vehicles	142,266	176,196
Totals	\$ 42,669,118	\$ 43,819,305

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

Debt

At June 30, 2014, the School District had general obligation bonds outstanding (including premiums) of \$7,119,595. The bonds were issued for the purpose of constructing, remodeling, reconstructing and adding to school buildings. For additional information on debt, see Note 11 to the basic financial statements.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kevin Kendall, Treasurer at Eastern Local School District, 11479 US Highway 62, Winchester, Ohio 45697.

Eastern Local School District, Brown County
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 4,574,865
Accounts Receivable	3,613
Intergovernmental Receivable	158,033
Taxes Receivable	4,597,891
Non-Depreciable Capital Assets	271,526
Depreciable Capital Assets, net	42,397,592
<i>Total Assets</i>	52,003,520
LIABILITIES:	
Current Liabilities:	
Accounts Payable	3,995
Accrued Wages and Benefits Payable	1,023,971
Intergovernmental Payable	253,091
Accrued Interest Payable	27,492
Matured Compensated Absences Payable	60,960
Non-Current Liabilities:	
Long-Term Liabilities:	
Due Within One Year	628,841
Due in More Than One Year	7,213,243
<i>Total Liabilities</i>	9,211,593
DEFERRED INFLOWS OF RESOURCES:	
Property Taxes not Levied to Finance Current Year Operations	3,199,095
<i>Total Deferred Inflows of Resources</i>	3,199,095
NET POSITION:	
Net Investment in Capital Assets	35,679,118
Restricted for Debt Service	1,230,164
Restricted for Capital Outlay	435,108
Restricted for Classroom Facilities Maintenance	151,319
Restricted for Other Purposes	153,959
Unrestricted	1,943,164
<i>Total Net Position</i>	\$ 39,592,832

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

Eastern Local School District, Brown County
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$ 6,041,017	\$ 343,320	\$ 92,465	\$ (5,605,232)
Special	2,177,094	117,633	980,003	(1,079,458)
Vocational	118,651	8,365	27,748	(82,538)
Other	1,313,159	91,089	51,475	(1,170,595)
Support Services:				
Pupils	381,749	27,988	-	(353,761)
Instructional Staff	42,838	2,411	2,231	(38,196)
Board of Education	31,820	2,288	-	(29,532)
Administration	1,027,705	75,361	-	(952,344)
Fiscal	506,067	31,634	1,415	(473,018)
Business	4,157	305	-	(3,852)
Operation and Maintenance of Plant	1,148,013	69,626	126,088	(952,299)
Pupil Transportation	1,031,309	71,315	15,069	(944,925)
Central	153,463	11,265	-	(142,198)
Operation of Non-Instructional Services	604,263	231,678	425,724	53,139
Extracurricular Activities	186,962	73,936	46,450	(66,576)
Interest and Fiscal Charges	332,391	-	-	(332,391)
Total Governmental Activities	\$ 15,100,658	\$ 1,158,214	\$ 1,768,668	(12,173,776)
General Revenues:				
Property Taxes Levied for:				
General Purposes				3,356,512
Building Maintenance				59,626
Debt Service				766,274
Permanent Improvement				158,903
Grants and Entitlements not Restricted to Specific Programs				7,581,768
Gifts and Donations not Restricted to Specific Programs				8,161
Investment Earnings				23,877
Payments in Lieu of Taxes				49,894
Miscellaneous				76,369
Total General Revenues				12,081,384
Change in Net Position				(92,392)
Net Position Beginning of Year - As Restated See Note 22				39,685,224
Net Position End of Year				\$ 39,592,832

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

Eastern Local School District, Brown County
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Investments	\$ 2,847,819	\$ 969,979	\$ 757,067	\$ 4,574,865
Accounts Receivable	3,442	-	171	3,613
Intergovernmental Receivable	67,663	-	90,370	158,033
Taxes Receivable	<u>3,552,772</u>	<u>813,647</u>	<u>231,472</u>	<u>4,597,891</u>
<i>Total Assets</i>	<u>\$ 6,471,696</u>	<u>\$ 1,783,626</u>	<u>\$ 1,079,080</u>	<u>\$ 9,334,402</u>
LIABILITIES:				
Accounts Payable	\$ 2,366	\$ -	\$ 1,629	\$ 3,995
Accrued Wages and Benefits Payable	883,948	-	140,023	1,023,971
Intergovernmental Payable	210,676	-	42,415	253,091
Matured Compensated Absences Payable	<u>60,960</u>	<u>-</u>	<u>-</u>	<u>60,960</u>
<i>Total Liabilities</i>	<u>1,157,950</u>	<u>-</u>	<u>184,067</u>	<u>1,342,017</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes not Levied to Finance Current Year Operations	2,484,486	553,462	161,147	3,199,095
Unavailable Revenue - Delinquent Taxes	<u>269,841</u>	<u>65,634</u>	<u>17,766</u>	<u>353,241</u>
<i>Total Deferred Inflows of Resources</i>	<u>2,754,327</u>	<u>619,096</u>	<u>178,913</u>	<u>3,552,336</u>
FUND BALANCES:				
Restricted	-	1,164,530	740,569	1,905,099
Committed	35,691	-	-	35,691
Assigned	79,250	-	-	79,250
Unassigned	<u>2,444,478</u>	<u>-</u>	<u>(24,469)</u>	<u>2,420,009</u>
<i>Total Fund Balances</i>	<u>2,559,419</u>	<u>1,164,530</u>	<u>716,100</u>	<u>4,440,049</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$ 6,471,696</u>	<u>\$ 1,783,626</u>	<u>\$ 1,079,080</u>	<u>\$ 9,334,402</u>

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

Eastern Local School District, Brown County
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2014*

Total Governmental Fund Balances	\$	4,440,049
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		42,669,118
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes		353,241
Long-term liabilities, including bonds, unamortized bond premium, accrued interest, and the long-term portion of compensated absences and early retirement incentive, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(709,956)	
Early Retirement Incentive	(12,533)	
General Obligation Bonds	(6,990,000)	
Accrued Interest Payable	(27,492)	
Unamortized Bond Premium	(129,595)	
Total		<u>(7,869,576)</u>
Net Position of Governmental Activities	\$	<u><u>39,592,832</u></u>

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

Eastern Local School District, Brown County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property Taxes	\$ 3,371,359	\$ 769,803	\$ 219,512	\$ 4,360,674
Intergovernmental	8,030,901	115,190	1,395,483	9,541,574
Interest	15,976	-	7,901	23,877
Tuition and Fees	849,160	-	-	849,160
Rent	12,456	-	-	12,456
Extracurricular Activities	-	-	64,998	64,998
Gifts and Donations	8,161	-	-	8,161
Customer Sales and Services	-	-	231,600	231,600
Payments in Lieu of Taxes	39,179	8,207	2,508	49,894
Miscellaneous	72,340	-	4,029	76,369
<i>Total Revenues</i>	<u>12,399,532</u>	<u>893,200</u>	<u>1,926,031</u>	<u>15,218,763</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,713,089	-	161,240	4,874,329
Special	1,601,651	-	569,634	2,171,285
Vocational	113,955	-	-	113,955
Other	1,240,905	-	72,254	1,313,159
Support Services:				
Pupils	381,162	-	-	381,162
Instructional Staff	28,104	-	3,132	31,236
Board of Education	31,168	-	-	31,168
Administration	1,060,411	-	-	1,060,411
Fiscal	427,112	25,692	7,258	460,062
Business	4,157	-	-	4,157
Operation and Maintenance of Plant	946,230	-	196,105	1,142,335
Pupil Transportation	963,640	-	21,152	984,792
Central	153,463	-	-	153,463
Operation of Non-Instructional Services	1,062	-	599,747	600,809
Extracurricular Activities	121,761	-	65,201	186,962
Capital Outlay	38,724	-	118,734	157,458
Debt Service:				
Principal	-	460,000	-	460,000
Interest	-	341,869	-	341,869
<i>Total Expenditures</i>	<u>11,826,594</u>	<u>827,561</u>	<u>1,814,457</u>	<u>14,468,612</u>
Excess of Revenues Over (Under) Expenditures	572,938	65,639	111,574	750,151
<i>Fund Balances at Beginning of Year</i>	<u>1,986,481</u>	<u>1,098,891</u>	<u>604,526</u>	<u>3,689,898</u>
<i>Fund Balances at End of Year</i>	<u>\$ 2,559,419</u>	<u>\$ 1,164,530</u>	<u>\$ 716,100</u>	<u>\$ 4,440,049</u>

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

Eastern Local School District, Brown County
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds \$ 750,151

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

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

Capital Asset Additions	163,575	
Current Year Depreciation	(1,230,129)	
Total	(1,066,554)	(1,066,554)

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

Loss on Disposal of Capital Assets	(83,633)	
Total	(83,633)	(83,633)

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

Taxes	(19,359)	
Intergovernmental	(191,138)	
Total	(210,497)	(210,497)

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

7,485

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

460,000

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

Decrease in Compensated Absences	22,842	
Decrease in Early Retirement Incentive	25,821	
Decrease in Accrued Interest Payable	1,993	
Total	50,656	50,656

Net Change in Net Position of Governmental Activities \$ (92,392)

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

Eastern Local School District, Brown County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues	\$ 11,888,825	\$ 12,418,539	\$ 12,418,539	\$ -
Total Expenditures	<u>12,130,172</u>	<u>11,856,471</u>	<u>11,856,471</u>	<u>-</u>
Net Change in Fund Balance	(241,347)	562,068	562,068	-
Fund Balance at Beginning of Year	2,140,635	2,140,635	2,140,635	-
Prior Year Encumbrances Appropriated	<u>30,172</u>	<u>30,172</u>	<u>30,172</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,929,460</u>	<u>\$ 2,732,875</u>	<u>\$ 2,732,875</u>	<u>\$ -</u>

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

Eastern Local School District, Brown County
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2014

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Investments	\$ <u>47,869</u>
LIABILITIES:	
Undistributed Monies	\$ <u>47,869</u>

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 143 square miles. It is located in Brown County and includes the Villages of Macon and Russellville and various townships within the County. It is staffed by 67 non-certified and 80 certified employees providing education to 1,337 students and other community members.

Reporting Entity

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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

Governmental Funds

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

General Fund

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

Bond Retirement Fund

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

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

Fiduciary Funds

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

Basis of Presentation

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Measurement Focus

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

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

Basis of Accounting

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

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The School District did not have any deferred outflow of resources as of June 30, 2014. The School District reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the School District these amounts consist of taxes which are not collected in the available period. The difference between deferred inflows on the Statement of Net Position and the Balance Sheet is due to delinquent property taxes not received during the available period. These were reported as revenues on the Statement of Activities and not recorded as deferred inflows on the Statement of Net Position.

Expenses/Expenditures

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2014.

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

Cash and Cash Equivalents

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

During fiscal year 2014, the School District's investments were limited to funds invested in Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, and money market funds. All investments are reported at market value.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund, and all other governmental funds during fiscal year 2014 amounted to \$15,976, and \$7,901, respectively.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,500. The School District does not have any infrastructure.

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

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

Compensated Absences

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets, liabilities and deferred inflows/outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes represents balances in special revenue funds for grants whose use is restricted by grant agreements.

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

The government-wide statement of net position reports \$1,970,550 in restricted net position, none of which is restricted by enabling legislation.

Interfund Transactions and Balances

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

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year, are referred to as either "due to/from other funds" or as "Interfund receivable/payable." All unpaid reimbursements between fund are reported as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net position.

Fund Balance

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

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

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Estimates

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restriction, commitment, or assignment of fund balance (GAAP basis).
4. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	<u>General</u>
GAAP Basis	\$572,938
Adjustments:	
Revenue Accruals	58,078
Expenditure Accruals	(10,005)
Perspective Difference:	
Activity of Funds Reclassified for	
GAAP Reporting Purposes	(18,306)
Encumbrances	<u>(40,637)</u>
Budget Basis	<u>\$562,068</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

As of June 30, 2014, the School District's bank balance of \$3,769,617 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Eastern Local School District, Brown County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Investments: As of June 30, 2014, the School District had the following investments and maturities:

<u>Description:</u>	Fair Value	Investment Maturities (in years)		
		Less than 1	1 - 2	3 - 5
Fifth Third Institutional Government				
Money Market	9,231	9,231	-	-
Federal Home Loan Bank Bonds	507,399	-	-	507,399
Federal National Mortgage Association Bonds	500,710	-	-	500,710
Total Investments	<u>\$ 1,017,340</u>	<u>\$ 9,231</u>	<u>\$ -</u>	<u>\$ 1,008,109</u>

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

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The School District’s investment policy allows investments as authorized in the Ohio Revised Code. The School District has invested less than 1.0% in Fifth Third Institutional Government Money Market, 49.88% in Federal Home Loan Bank Bonds, and 49.22% in Federal National Mortgage Association Bonds.

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

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 5 - PROPERTY TAXES (Continued)

Public utility property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, and are collected in 2014 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The assessed values upon which fiscal year 2014 taxes were collected are:

	<u>2013 Second- Half Collections</u>		<u>2014 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 158,262,120	92.49%	\$ 159,166,000	92.07%
Public Utility	12,842,080	7.51%	13,703,090	7.93%
Total Assessed Value	<u>\$ 171,104,200</u>	<u>100.00%</u>	<u>\$ 172,869,090</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 32.80		\$ 32.80	

The School District receives property taxes from Adams, Brown and Highland Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014 are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2014 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2014, was \$798,445 in the General Fund and \$247,110 in all other governmental funds.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2014, consisted of property taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 6 – RECEIVABLES (Continued)

A summary of the intergovernmental receivables follows at June 30, 2014:

	<u>Amounts</u>
Major Fund:	
General	\$ 67,663
Total Major Fund	<u>67,663</u>
Non-Major Funds:	
Athletics	372
Alternative School Grant	4,407
Special Education, IDEA Part B	43,535
Title I	38,606
Title II-A Teacher Quality	<u>3,450</u>
Total Non-Major Funds	<u>90,370</u>
Total Intergovernmental Receivables	<u>\$ 158,033</u>

NOTE 7 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the School District contracted with Ohio School Plan for general liability insurance with a \$3,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by the Ohio School Plan in the amount of \$55,086,493. The School District's vehicles are covered by the Ohio School Plan and hold a \$1,000 deductible for buses and \$250 for all other autos for comprehensive and a \$1,000 deductible for buses and \$500 for all other autos for collision with a \$3,000,000 limit on any accident. Violence coverage is provided by the Ohio School Plan with a \$1,000,000 single occurrence and aggregate.

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

For fiscal year 2014, the School District participated in Better Business Bureau of Central Ohio, Inc. Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService. provides administrative, cost control and actuarial services to the GRP.

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Fund. The School District's contributions to SERS which were allocated for pension and death benefits for the fiscal years ended June 30, 2014, 2013, and 2012 were \$291,349, \$283,168, and \$262,713, respectively; 78 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2014 and 2013. \$63,517 represents the unpaid contribution for fiscal year 2014 and is recorded as a liability within the respective funds.

State Teachers Retirement System

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

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

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Eligible members who do not make a choice during the reselection period will permanently remain under their current plan.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

A. Defined Benefit Pension Plans (Continued)

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

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

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

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

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

A. Defined Benefit Pension Plans (Continued)

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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

For the fiscal year ended June 30, 2014, plan members were required to contribute 11% of their annual covered salaries. For fiscal years 2013 and 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was allocated for pension benefits.

The School District's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$600,637, \$632,951, and \$642,792, respectively; 84 percent of the required contribution has been made for fiscal year 2014 and 100 percent of the required contribution has been made for fiscal years 2013 and 2012. \$98,499 represents the unpaid contribution for fiscal year 2014 and is recorded as a liability within the respective funds.

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

Effective July 1, 2014, plan members will be required to contribute 12% of their annual covered salaries.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, no members of the Board of Education had elected Social Security.

C. Postemployment Benefits

State Teachers Retirement System

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

C. Postemployment Benefits (Continued)

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013, and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$46,574, \$37,239, and \$46,194 for fiscal years 2014, 2013, and 2012, respectively, which equaled the required allocation for each year.

School Employees Retirement System

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50 if they participated in one of SERS' health care plans.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2014, 2013, and 2012, the actuarially required allocations were 0.76, 0.74 percent, and 0.75 percent. For the School District, contributions for the years ended June 30, 2014, 2013, and 2012, were \$18,236, \$17,033, and \$17,042, which equaled the required allocation for each year.

Health Care Plan

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

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 8 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

(Continued)

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2014, 2013, and 2012, the health care allocations were 0.14 percent, 0.16 percent, and 0.55 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the minimum compensation level was established at \$20,250. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2014, 2013, and 2012 fiscal years equaled \$36,576, \$49,190, and \$48,613, respectively, which equaled the required allocation for each year.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under *Employers/Audit Resources*.

NOTE 9 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Other Employee Benefits

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

C. Early Retirement Incentive

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

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 9 - EMPLOYEE BENEFITS (Continued)

D. Severance Payout Obligation

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

NOTE 10 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 271,526	\$ -	\$ -	\$ 271,526
Total Capital Assets, Not Being Depreciated	271,526	-	-	271,526
Capital Assets Being Depreciated				
Land Improvements	308,955	8,700	(3,660)	313,995
Buildings and Improvements	45,300,498	73,930	(40,239)	45,334,189
Furniture and Equipment	4,268,925	75,444	(236,264)	4,108,105
Vehicles	1,538,668	5,501	-	1,544,169
Total Capital Assets Being Depreciated	51,417,046	163,575	(280,163)	51,300,458
Less: Accumulated Depreciation:				
Land Improvements	(302,703)	(5,167)	2,662	(305,208)
Buildings and Improvements	(4,554,836)	(948,544)	801	(5,502,579)
Furniture and Equipment	(1,649,256)	(236,987)	193,067	(1,693,176)
Vehicles	(1,362,472)	(39,431)	-	(1,401,903)
Total Accumulated Depreciation	(7,869,267)	(1,230,129)	196,530	(8,902,866)
Total Capital Assets Being Depreciated, Net	43,547,779	(1,066,554)	(83,633)	42,397,592
Governmental Capital Assets, Net	\$ 43,819,305	\$ (1,066,554)	\$ (83,633)	\$ 42,669,118

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,160,915
Special	588
Vocational	4,696
Support Services:	
Pupils	468
Instructional Staff	6,861
Board of Education	652
Administration	1,071
Fiscal	357
Operation and Maintenance of Plant	10,259
Pupil Transportation	38,642
Operation of Non-Instructional Services	5,620
Total Depreciation Expense	<u>\$1,230,129</u>

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 11 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2014 were as follows:

	Principal Outstanding 06/30/13	Additions	Deductions	Principal Outstanding 06/30/14	Due Within One Year
School Construction/Remodeling Bonds 1995 6.25%	\$ 1,405,000	\$ -	\$ 245,000	\$ 1,160,000	\$ 260,000
Classroom Facilities General Obligation Bonds 2006 4% - 4.75%	6,045,000	-	215,000	5,830,000	225,000
Premium	137,080	-	7,485	129,595	-
Compensated Absences	732,798	713,187	736,029	709,956	131,308
Severance Payout Obligation	38,354	-	25,821	12,533	12,533
Total Governmental Activities	\$ 8,358,232	\$ 713,187	\$ 1,229,335	\$ 7,842,084	\$ 628,841

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

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

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

The School District's overall legal debt margin was \$8,568,218 with an unvoted debt margin of \$172,869 at June 30, 2014. Principal and interest requirements to retire general obligation debt at June 30, 2014 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2015	\$ 485,000	\$ 317,287	\$ 802,287
2016	520,000	291,056	811,056
2017	540,000	263,274	803,274
2018	565,000	234,256	799,256
2019	260,000	214,213	474,213
2020-2024	1,475,000	898,975	2,373,975
2025-2029	1,825,000	537,219	2,362,219
2030-2032	1,320,000	95,959	1,415,959
Totals	\$ 6,990,000	\$ 2,852,239	\$ 9,842,239

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

South Central Ohio Computer Association Council of Governments

The School District is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 59 public education entities, 60 non-public education entities, and public libraries from 24 Ohio counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA COG consists of two representatives from each of the eleven participating counties, two school treasurers, and a representative for the fiscal agent. SCOCA COG is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. The School District paid \$94,145 for services provided during fiscal year 2014. Financial information for SCOCA COG can be obtained from their fiscal office located at Pike County Career Technology Center, P.O. Box 577, 175 Beaver Creek, Piketon, Ohio 45661.

NOTE 13 - INSURANCE PURCHASING POOL

Better Business Bureau of Central Ohio, Inc. Group Rating Plan

The School District participates in the Better Business Bureau of Central Ohio, Inc. Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP.

NOTE 14 - PUBLIC ENTITY SHARED RISK POOL

Brown County Schools Benefits Consortium

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide health insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) and two Highland County school districts (Lynchburg-Clay and Bright Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Humana to provide medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, Dental Care Plus. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to Brown County Educational Service Center at 9231-B Hamer Road, Georgetown, Ohio 45121.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 15 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2013	\$ -
Current Year Set-aside Requirement	(225,724)
Current Year Offsets	290,676
Qualifying Disbursements	<u>(80,559)</u>
Set-aside Balance as of June 30, 2014	<u>\$ (15,607)</u>
Set-aside Reserve Balance as of June 30, 2014	<u>\$ -</u>

The School District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero in the Capital Acquisition Reserve. The carryover amount in the Capital Acquisition Reserve is limited to the balance of the offsets attributed to bond or tax levy proceeds. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$7,089,465 at June 30, 2014.

NOTE 16 - CONTINGENCIES

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, if applicable, cannot be determined at this time.

Litigation

The School District is not party to legal proceedings.

NOTE 17 – ACCOUNTABILITY

At June 30, 2014, the Food Service, Alternative School Grant, IDEA Part-B, and Title I Special Revenue Funds had fund balance deficits of \$10,246, \$1,315, \$6,951, and \$5,957, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 18 – CHANGES IN ACCOUNTING PRINCIPLES

For 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, “Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,” GASB Statement No. 69, “Government Combinations and Disposals of Government Operations,” and GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.”

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No. 66, 69, and 70 had no effect on the financial statements.

Eastern Local School District, Brown County

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 19 – FUND BALANCES

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

Fund Balances	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for				
Athletics	\$0	\$0	\$35,515	\$35,515
Classroom Facility and Maintenance	0	0	158,949	158,949
Other Purposes	0	0	118,167	118,167
Capital Projects	0	0	427,938	427,938
Debt Services Payments	0	1,164,530	0	1,164,530
Total Restricted	<u>0</u>	<u>1,164,530</u>	<u>740,569</u>	<u>1,905,099</u>
Committed to				
Retirement Severance Benefits	<u>35,691</u>	<u>0</u>	<u>0</u>	<u>35,691</u>
Assigned to				
Other Purposes	<u>79,250</u>	<u>0</u>	<u>0</u>	<u>79,250</u>
Unassigned (Deficit)				
	<u>2,444,478</u>	<u>0</u>	<u>(24,469)</u>	<u>2,420,009</u>
Total Fund Balances	<u>\$2,559,419</u>	<u>\$1,164,530</u>	<u>\$716,100</u>	<u>\$4,440,049</u>

NOTE 20 - INTERFUND ACTIVITY

Interfund Advances

As of June 30, 2014, the District repaid the outstanding interfund receivables and payables from fiscal year 2013. This left no balance of interfund receivables of payables for fiscal year 2014.

NOTE 21 – ENCUMBRANCES COMMITMENTS

At June 30, 2014, the School District had encumbrance commitments in governmental funds as follows:

Fund	Amount
Non-Major Fund:	
Capital Projects	<u>70,294</u>
Total Encumbrances	<u>\$70,294</u>

NOTE 22 – PRIOR PERIOD ADJUSTMENT

During the current fiscal year, it was noted that due to a correction in the closeout, the Ohio School Facilities Commission reduced the amount left to be paid to the District by \$206,504. This correction decreased the beginning net position in the amount of \$206,504, from \$39,891,728 to \$39,685,224.

Eastern Local School District, Brown County
 Schedule of Expenditures and Receipts of Federal Awards
 For the Fiscal Year Ended June 30, 2014

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through the Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	3L70	10.553	\$ 64,708	\$ -	\$ 64,708	\$ -
National School Lunch Program	3L60	10.555	257,369	47,524	257,369	47,524
Total United States Department of Agriculture			322,077	47,524	322,077	47,524
United States Department of Education						
<i>Passed through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States	3M20	84.027	248,974	-	251,859	-
Total Special Education Cluster			248,974	-	251,859	-
<i>Title I, Part A Cluster:</i>						
Title I Grants to Local Educational Agencies	3M00	84.010	314,773	-	315,295	-
Total Title I, Part A Cluster			314,773	-	315,295	-
Twenty-First Century Community Learning Centers	3Y20	84.287	100,000	-	105,323	-
Improving Teacher Quality State Grants	3Y60	84.367	84,692	-	90,236	-
Total United States Department of Education			748,439	-	762,713	-
Total Federal Financial Assistance			\$ 1,070,516	\$ 47,524	\$ 1,084,790	\$ 47,524

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION

Program regulations do not require the School 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 – NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS

Federal funds received from the National School Lunch and Breakfast Programs were commingled with state subsidy and local revenue from the sale of meals. It was assumed that federal dollars were expended first.



Balestra, Harr & Scherer, CPAs, Inc.

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

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

Members of the Board of Education
Eastern Local School District
11479 US Highway 62
Winchester, Ohio 45697

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Brown County, Ohio (the School District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.

Piketon, Ohio

October 24, 2014



Balestra, Harr & Scherer, CPAs, Inc.

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

www.bhscpas.com

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

Eastern Local School District
11479 US Highway 62
Winchester, Ohio 45697

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Eastern Local School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect Eastern Local School District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal program.

Management's Responsibility

The School District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on the Major Federal Program

In our opinion, Eastern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
October 24, 2014

**Eastern Local School District
Brown County**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

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

**Eastern Local School District
Brown County**

**Schedule of Findings
OMB Circular A-133 Section §.505
June 30, 2014**

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

None noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted



Dave Yost • Auditor of State

EASTERN LOCAL SCHOOL DISTRICT

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2014**