



**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types	10
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type	12
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Budget and Actual (Budget Basis)- Proprietary Fund Type	13
Combined Statement of Cash Flows - Proprietary Fund Type	14
Notes to the General Purpose Financial Statements	15
Schedule of Federal Awards Expenditures	43
Notes to Schedule of Federal Awards Expenditures	44
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	45
Report of Independent Accountants on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	47
Schedule of Findings	49



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Eastern Local School District, Brown County (the District), as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

December 20, 2001

This page intentionally left blank.

Eastern Local School District, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2001

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$885,553	\$458,622	\$480,472	\$136,372
Receivables:				
Taxes	2,419,046	47,190	277,106	91,997
Accounts	10,828	0	0	0
Intergovernmental	0	24,576	0	0
Prepaid Items	9,949	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	0	0	0	0
Restricted Assets:				
Cash and Cash Equivalents with Escrow Agents	0	0	0	1,187
Equity in Pooled Cash and Cash Equivalents	36,759	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
 <u>Other Debits:</u>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
	0	0	0	0
Total Assets and Other Debits	\$3,362,135	\$530,388	\$757,578	\$229,556

<i>PROPRIETARY FUND TYPE</i>	<i>FIDUCIARY FUND TYPE</i>	<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$81,222	\$17,378	\$0	\$0	\$2,059,619
0	0	0	0	2,835,339
0	0	0	0	10,828
0	0	0	0	24,576
0	0	0	0	9,949
4,918	0	0	0	4,918
122	0	0	0	122
0	0	0	0	1,187
0	0	0	0	36,759
194,205	0	16,899,229	0	17,093,434
0	0	0	504,665	504,665
0	0	0	3,262,728	3,262,728
<u>\$280,467</u>	<u>\$17,378</u>	<u>\$16,899,229</u>	<u>\$3,767,393</u>	<u>\$25,844,124</u>

(continued)

Eastern Local School District, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001
(Continued)

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities:</u>				
<u>Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$2,078	\$15,542	\$0	\$769
Accrued Wages and Benefits	810,346	66,126	0	0
Compensated Absences Payable	7,993	0	0	0
Retainage Payable	0	0	0	4,027
Intergovernmental Payable	159,621	12,158	0	0
Deferred Revenue	2,159,918	65,563	252,913	84,053
Undistributed Monies	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
	3,139,956	159,389	252,913	88,849
Total Liabilities				
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved (Deficit)	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	59,403	33,720	0	5,740
Reserved for Property Taxes	261,565	5,993	23,372	7,524
Reserved for Budget Stabilization	36,759	0	0	0
Unreserved:				
Undesignated (Deficit)	(135,548)	331,286	481,293	127,443
	222,179	370,999	504,665	140,707
Total Fund Equity and Other Credits				
Total Liabilities, Fund Equity and Other Credits	\$3,362,135	\$530,388	\$757,578	\$229,556

See accompanying notes to the general purpose financial statements

<i>PROPRIETARY FUND TYPE</i>	<i>FIDUCIARY FUND TYPE</i>	<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$588	\$0	\$0	\$0	\$18,977
24,526	0	0	0	900,998
11,088	0	0	566,476	585,557
0	0	0	0	4,027
12,804	0	0	70,917	255,500
3,292	0	0	0	2,565,739
0	17,378	0	0	17,378
0	0	0	3,130,000	3,130,000
<u>52,298</u>	<u>17,378</u>	<u>0</u>	<u>3,767,393</u>	<u>7,478,176</u>
0	0	16,899,229	0	16,899,229
251,181	0	0	0	251,181
(23,012)	0	0	0	(23,012)
0	0	0	0	98,863
0	0	0	0	298,454
0	0	0	0	36,759
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>804,474</u>
<u>228,169</u>	<u>0</u>	<u>16,899,229</u>	<u>0</u>	<u>18,365,948</u>
<u>\$280,467</u>	<u>\$17,378</u>	<u>\$16,899,229</u>	<u>\$3,767,393</u>	<u>\$25,844,124</u>

Eastern Local School District, Ohio
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2001

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
<u>Revenues:</u>					
Property Taxes	\$2,240,386	\$45,902	\$228,119	\$65,498	\$2,579,905
Intergovernmental	5,791,472	678,457	31,417	36,249	6,537,595
Interest	161,697	0	0	0	161,697
Tuition and Fees	69,821	18,650	0	0	88,471
Rent	6,705	0	0	0	6,705
Extracurricular Activities	0	123,106	0	0	123,106
Gifts and Donations	11,383	9,549	0	10,283	31,215
Customer Services	0	103,489	0	0	103,489
Miscellaneous	44,822	43,894	0	0	88,716
Total Revenues	8,326,286	1,023,047	259,536	112,030	9,720,899
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	4,019,975	373,024	0	0	4,392,999
Special	612,074	267,128	0	0	879,202
Vocational	196,805	0	0	0	196,805
Other	243,935	20,028	0	0	263,963
Support Services:					
Pupils	362,791	15,797	0	0	378,588
Instructional Staff	717,618	212,726	0	0	930,344
Board of Education	21,755	0	0	0	21,755
Administration	818,253	18,032	0	0	836,285
Fiscal	280,704	8,174	7,315	0	296,193
Business	6,164	0	0	0	6,164
Operation and Maintenance of Plant	723,693	15,757	0	0	739,450
Pupil Transportation	636,492	0	0	0	636,492
Central	10,327	0	0	0	10,327
Operation of Non-Instructional Services					
Services	1,530	4,562	0	0	6,092
Extracurricular Activities	73,674	130,844	0	0	204,518
Capital Outlay	0	0	0	395,920	395,920
Debt Service:					
Principal Retirement	0	0	60,000	0	60,000
Interest and Fiscal Charges	0	0	197,500	0	197,500
Total Expenditures	8,725,790	1,066,072	264,815	395,920	10,452,597
Excess of Revenues Under Expenditures	(399,504)	(43,025)	(5,279)	(283,890)	(731,698)
<u>Other Financing Sources:</u>					
Proceeds From Sale of Fixed Assets	1,011	0	0	0	1,011
Excess of Revenues and Other Financing Sources Under Expenditures	(398,493)	(43,025)	(5,279)	(283,890)	(730,687)
Fund Balances at Beginning of Year - (Restated Note 3)	620,672	414,024	509,944	424,597	1,969,237
Fund Balances at End of Year	\$222,179	\$370,999	\$504,665	\$140,707	\$1,238,550

See accompanying notes to the general purpose financial statements

This page intentionally left blank.

Eastern Local School District, Ohio
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2001

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Property Taxes	\$2,106,001	\$2,245,797	\$139,796	\$38,758	\$45,134	\$6,376
Intergovernmental	5,835,222	5,792,472	(42,750)	802,893	779,865	(23,028)
Interest	173,232	161,697	(11,535)	0	0	0
Tuition and Fees	56,428	68,339	11,911	15,065	22,010	6,945
Rent	6,218	6,885	667	0	0	0
Extracurricular Activities	0	0	0	108,255	124,199	15,944
Gifts and Donations	891	11,383	10,492	15,500	9,549	(5,951)
Customer Services	0	0	0	107,792	103,489	(4,303)
Miscellaneous	26,371	24,444	(1,927)	56,800	43,694	(13,106)
Total Revenues	8,204,363	8,311,017	106,654	1,145,063	1,127,940	(17,123)
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	4,120,652	4,069,348	51,304	526,278	427,852	98,426
Special	669,665	636,917	32,748	318,593	267,451	51,142
Vocational	209,210	198,770	10,440	0	0	0
Other	249,907	243,935	5,972	66,979	23,533	43,446
Support Services:						
Pupils	388,234	374,575	13,659	18,253	12,969	5,284
Instructional Staff	757,297	710,748	46,549	264,879	222,735	42,144
Board of Education	232,101	29,812	202,289	0	0	0
Administration	854,323	827,563	26,760	20,433	18,026	2,407
Fiscal	297,205	289,254	7,951	9,230	8,174	1,056
Business	10,172	6,164	4,008	0	0	0
Operation and Maintenance of Plant	838,606	771,651	66,955	95,269	28,078	67,191
Pupil Transportation	685,840	647,761	38,079	2,000	0	2,000
Central	10,777	10,327	450	0	0	0
Operation of Non-Instructional						
Services	8,484	1,530	6,954	5,298	4,708	590
Extracurricular Activities	75,620	73,813	1,807	155,992	136,018	19,974
Capital Outlay	14,000	0	14,000	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	9,422,093	8,892,168	529,925	1,483,204	1,149,544	333,660
Excess of Revenues Over (Under) Expenditures	(1,217,730)	(581,151)	636,579	(338,141)	(21,604)	316,537
<u>Other Financing Sources:</u>						
Proceeds from Sale of Fixed Assets	1,475	1,011	(464)	0	0	0
Refund of Prior Year Expenditure	9,472	24,539	15,067	0	200	200
Total Other Financing Sources	10,947	25,550	14,603	0	200	200
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(1,206,783)	(555,601)	651,182	(338,141)	(21,404)	316,737
Fund Balances at Beginning of Year	1,278,564	1,278,564	0	360,691	360,691	0
Prior Year Encumbrances Appropriated	136,228	136,228	0	72,058	72,058	0
Fund Balances at End of Year	\$208,009	\$859,191	\$651,182	\$94,608	\$411,345	\$316,737

See accompanying notes to the general purpose financial statements

<i>DEBT SERVICE FUND</i>			<i>CAPITAL PROJECTS FUNDS</i>			<i>TOTALS (MEMORANDUM ONLY)</i>		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$325,534	\$246,320	(\$79,214)	\$62,416	\$65,519	\$3,103	\$2,532,709	\$2,602,770	\$70,061
37,828	31,417	(6,411)	30,870	36,249	5,379	6,706,813	6,640,003	(66,810)
0	0	0	0	0	0	173,232	161,697	(11,535)
0	0	0	0	0	0	71,493	90,349	18,856
0	0	0	0	0	0	6,218	6,885	667
0	0	0	0	0	0	108,255	124,199	15,944
0	0	0	0	10,283	10,283	16,391	31,215	14,824
0	0	0	0	0	0	107,792	103,489	(4,303)
0	0	0	0	0	0	83,171	68,138	(15,033)
<u>363,362</u>	<u>277,737</u>	<u>(85,625)</u>	<u>93,286</u>	<u>112,051</u>	<u>18,765</u>	<u>9,806,074</u>	<u>9,828,745</u>	<u>22,671</u>
0	0	0	113,947	113,501	446	4,760,877	4,610,701	150,176
0	0	0	0	0	0	988,258	904,368	83,890
0	0	0	0	0	0	209,210	198,770	10,440
0	0	0	0	0	0	316,886	267,468	49,418
0	0	0	18,089	10,177	7,912	424,576	397,721	26,855
0	0	0	4,681	265	4,416	1,026,857	933,748	93,109
0	0	0	0	0	0	232,101	29,812	202,289
0	0	0	2,063	2,063	0	876,819	847,652	29,167
11,500	7,315	4,185	9,189	8,131	1,058	327,124	312,874	14,250
0	0	0	0	0	0	10,172	6,164	4,008
0	0	0	147,015	73,951	73,064	1,080,890	873,680	207,210
0	0	0	179,972	174,986	4,986	867,812	822,747	45,065
0	0	0	0	0	0	10,777	10,327	450
0	0	0	0	0	0	13,782	6,238	7,544
0	0	0	0	0	0	231,612	209,831	21,781
0	0	0	37,943	36,281	1,662	51,943	36,281	15,662
60,000	60,000	0	0	0	0	60,000	60,000	0
197,500	197,500	0	0	0	0	197,500	197,500	0
<u>269,000</u>	<u>264,815</u>	<u>4,185</u>	<u>512,899</u>	<u>419,355</u>	<u>93,544</u>	<u>11,687,196</u>	<u>10,725,882</u>	<u>961,314</u>
<u>94,362</u>	<u>12,922</u>	<u>(81,440)</u>	<u>(419,613)</u>	<u>(307,304)</u>	<u>112,309</u>	<u>(1,881,122)</u>	<u>(897,137)</u>	<u>983,985</u>
0	0	0	0	0	0	1,475	1,011	(464)
0	0	0	0	0	0	9,472	24,739	15,267
0	0	0	0	0	0	10,947	25,750	14,803
94,362	12,922	(81,440)	(419,613)	(307,304)	112,309	(1,870,175)	(871,387)	998,788
467,550	467,550	0	358,911	358,911	0	2,465,716	2,465,716	0
0	0	0	78,256	78,256	0	286,542	286,542	0
<u>\$561,912</u>	<u>\$480,472</u>	<u>(\$81,440)</u>	<u>\$17,554</u>	<u>\$129,863</u>	<u>\$112,309</u>	<u>\$882,083</u>	<u>\$1,880,871</u>	<u>\$998,788</u>

Eastern Local School District, Ohio
Statement of Revenues, Expenses
and Changes in Fund Equity
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2001

	<i>Enterprise</i>
<u>Operating Revenues:</u>	
Sales	\$241,570
Other	265
	241,835
<i>Total Operating Revenues</i>	<i>241,835</i>
<u>Operating Expenses:</u>	
Salaries	142,261
Fringe Benefits	71,463
Purchased Services	2,942
Materials and Supplies	22,468
Cost of Sales	187,150
Depreciation	15,556
	441,840
<i>Total Operating Expenses</i>	<i>441,840</i>
Operating Loss	(200,005)
<u>Non-Operating Revenues:</u>	
Federal Donated Commodities	29,887
Interest	4,324
Federal and State Subsidies	133,532
	167,743
<i>Total Non-Operating Revenues</i>	<i>167,743</i>
Net Loss	(32,262)
Retained Earnings at Beginning of Year	9,250
Retained Earnings (Deficit) at End of Year	(23,012)
Contributed Capital at Beginning and End of Year	251,181
Total Fund Equity at End of Year	\$228,169

See accompanying notes to the general purpose financial statements

Eastern Local School District, Ohio
Statement of Revenues, Expenses and Changes in
Fund Equity - Budget and Actual (Budget Basis)
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2001

	ENTERPRISE FUNDS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Sales	241,295	241,630	335
Other	73	265	192
Interest	7,109	4,324	(2,785)
Federal and State Subsidies	122,370	133,532	11,162
	370,847	379,751	8,904
<u>Expenses:</u>			
Salaries	157,634	152,183	5,451
Fringe Benefits	82,257	74,747	7,510
Purchased Services	4,204	3,942	262
Materials and Supplies	213,062	178,018	35,044
Capital Outlay	2,842	1,876	966
	459,999	410,766	49,233
Excess of Revenues Over (Under) Expenses	(89,152)	(31,015)	58,137
Fund Equity at Beginning of Year	111,237	111,237	0
Fund Equity at End of Year	\$22,085	\$80,222	\$58,137

See accompanying notes to the general purpose financial statements

Eastern Local School District, Ohio
Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2001

	<u>Enterprise</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$241,630
Cash Received from Other Operating Sources	265
Cash Payments to Suppliers for Goods and Services	(182,836)
Cash Payments for Employee Benefits	(74,747)
Cash Payments for Employees Services	(152,183)
	<u>(167,871)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	133,532
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	4,324
	<u>(30,015)</u>
Net Decrease in Cash and Cash Equivalents	(30,015)
Cash and Cash Equivalents at Beginning of Year	111,237
Cash and Cash Equivalents at End of Year	<u>\$81,222</u>
<u>Reconciliation of Operating Loss to Net</u>	
<u>Cash Used for Operating Activities:</u>	
Operating Loss	(\$200,005)
<u>Adjustments to Reconcile Operating Loss to</u>	
<u>Net Cash Used for Operating Activities:</u>	
Depreciation	15,556
Donated Commodities Used During Year	29,887
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	60
Increase in Inventory Held for Resale	(706)
Increase in Materials and Supplies Inventory	(45)
Increase in Accounts Payable	588
Decrease in Accrued Wages and Benefits Payable	(8,207)
Decrease in Compensated Absences Payable	(7,832)
Increase in Intergovernmental Payable	2,833
	<u>32,134</u>
Total Adjustments	<u>32,134</u>
Net Cash Used for Operating Activities	<u>(\$167,871)</u>

See accompanying notes to the general purpose financial statements

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1957 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 75 square miles. It is located in Brown County and includes the Villages of Macon and Russleville and various townships within the County. It is staffed by 73 non-certified and 105 teaching personnel and administrative employees providing education to 1,517 students and other community members.

Reporting Entity

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

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

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

The School District is associated with four organizations, two of which are defined as a jointly governed organizations, one as an insurance purchasing pool, and one as a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), Hopewell Special Education Regional Resource Center (Hopewell), the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), and the Brown County Schools Benefits Consortium. These organizations are presented in Notes 15, 16 and 17 to the general purpose financial statements.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The following are the School District's governmental fund types:

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary fund.

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 with 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 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. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, accounts and grants.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been given the authority to allocate appropriations among functions and objects within funds.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

By no later than January 20, the Board-adopted budget is filed with the Brown County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2001.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device by the Board of Education, during the year for all funds other than agency funds, at the object level, consistent with statutory provisions.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. The School District also utilizes an escrow agent to hold retainage on a construction contract. The balance in this account is presented on the financial statements as "cash and cash equivalents with escrow agents" and represents deposits.

During fiscal year 2001, the School District's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio) and repurchase agreements. Repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$161,697, which includes \$122,195 assigned from other School District funds. The enterprise fund also received interest in the amount of \$4,324.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food and purchased food held for resale, and supplies which are expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary fund are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. 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. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund is computed using the straight-line method over an estimated useful life of ten to twenty years.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

For governmental funds, the School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of current service with the School District. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences (including the retirement incentive) and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year end are considered not to have used current available financial resources. General obligation bonds are reported as a liability in the general long-term obligations account group until due.

Long-term obligations financed by the proprietary fund are reported as liabilities in the proprietary fund.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represents amounts required by statute to be set-aside by the School District for budget stabilization. See Note 18 for additional information regarding set-asides.

The School District also utilizes an escrow agent to hold retainage on a construction contract. The balance in this account is presented on the financial statements as “cash and cash equivalents with escrow agents” and represents deposits.

M. Estimates

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1995, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT OF FUND BALANCES

For fiscal year 2001, the School District has implemented *GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions*, and *GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues*, which changes how the School District reports certain types of revenues. Implementation of these pronouncements did not effect the financial statements.

Intergovernmental receivables were understated at June 30, 2000 in the Special Revenue Funds:

	<u>Special Revenue Funds</u>
Fund Balances, June 30, 2000	\$324,570
Intergovernmental Receivable Adjustments	89,454
Restated Fund Balances, June 30, 2000	<u><u>\$414,024</u></u>

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 4 - ACCOUNTABILITY

Fund balances at June 30, 2001, included the following individual fund deficit:

<u>Special Revenue Funds</u>	<u>Amounts</u>
Disadvantaged Pupil Impact Aid	\$103

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)-All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis)-Proprietary Fund Type are 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$398,493)	(\$43,025)	(\$5,279)	(\$283,890)
Adjustments:				
Revenue Accruals	9,270	105,093	18,201	21
Expenditure Accruals	(103,257)	(36,195)	0	(16,926)
Encumbrances	(63,121)	(47,277)	0	(6,509)
Budget Basis	(\$555,601)	(\$21,404)	\$12,922	(\$307,304)

Net Loss/Excess of Revenues Under Expenses Proprietary Fund Type	
	Enterprise
GAAP Basis	(\$32,262)
Adjustments:	
Revenue Accruals	60
Expense Accruals	(13,369)
Encumbrances	(1,000)
Depreciation	15,556
Budget Basis	(\$31,015)

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

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

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

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was (\$127,433) and the bank balance was \$91,609, which was fully covered by federal depository insurance.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

	Category 3	Unclassified	Carrying/Fair Value
STAR Ohio	\$0	\$1,925,135	\$1,925,135
Repurchase Agreements	299,863	0	299,863
	\$299,863	\$1,925,135	\$2,224,998

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,097,565	\$0
Investments:		
STAR Ohio	(1,925,135)	1,925,135
Repurchase Agreements	(299,863)	299,863
GASB Statement No. 3	(\$127,433)	\$2,224,998

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) are for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2001 real property taxes are collected in and intended to finance fiscal year 2002.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001 and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

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

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 7 - PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2001 taxes were collected are:

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$74,089,540	83.16%	\$88,747,650	85.50%
Public Utility	12,030,130	13.50%	11,649,090	11.22%
Tangible Personal Property	2,976,381	3.34%	3,403,814	3.28%
Total Assessed Value	<u>\$89,096,051</u>	<u>100.00%</u>	<u>\$103,800,554</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.10		\$42.15	

The School District receives property taxes from 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, 2001 are available to finance fiscal year 2001 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, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2001, was \$261,565 in the General Fund, \$5,993 in the Classroom Maintenance Special Revenue Fund, \$23,372 in the Debt Service Fund, and \$7,524 in the Permanent Improvement Capital Projects Fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2001, consisted of property taxes, accounts (tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs, and the current year guarantee of federal funds. Tuition is also considered collectible in full due to the withholding of diplomas and grade cards.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 8 - RECEIVABLES (Continued)

The Performance Incentive Grant fund had \$24,576 in intergovernmental receivables at June 30, 2001.

NOTE 9 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2001 follows:

Furniture and Equipment	\$350,711
Less Accumulated Depreciation	(156,506)
Net Fixed Assets	\$194,205

A summary of the changes in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at June 30, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2001</u>
Land	\$359,365	\$28,300	\$2,470	\$385,195
Buildings and Improvements	12,994,260	0	0	12,994,260
Furniture, Fixtures and Equipment	2,391,914	135,513	62,713	2,464,714
Vehicles	967,998	214,982	127,920	1,055,060
Totals	\$16,713,537	\$378,795	\$193,103	\$16,899,229

NOTE 10 - 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 2001, the School District contracted with Nationwide Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by the Nationwide Insurance Company and holds a \$1,000 deductible. The School District's vehicles are covered by the Nationwide Insurance Company and holds a \$250 deductible for both comprehensive and collision with a \$1,000,000 limit on any accident. Vehicles are also covered under the commercial umbrella policy.

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 10 - RISK MANAGEMENT (Continued)

For fiscal year 2001, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk pool (Note 17) consisting of seven districts. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions and all claims of its employees from the date of termination, regardless of the date such claims were incurred.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$41,576, \$60,795, and \$136,348, respectively; 41.49 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$24,325 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$451,951, \$258,297, and \$206,470, respectively; 84.08 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$71,946 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$214,082 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 million. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$109,601.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month for a total of 15 days of sick leave for each year under contract. Sick leave may be accumulated up to a maximum of 200 days for teachers and classified personnel. Administrators with a 242 day contract may accumulate up to a maximum of 266 days, with a 222 day contract may accumulate up to a maximum of 244 days, and with a 202 day contract may accumulate up to 222 days. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 50 days for teachers, administrators, and classified personnel.

B. Other Employee Benefits

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

C. Early Retirement Incentive

The School District offers an Early Retirement Incentive (Super-Severance) program to all certified employees, other than the Treasurer and Superintendent, who are eligible to retire from either SERS or STRS. 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, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 14 - LONG-TERM OBLIGATIONS

The change in the School District's long-term obligations during the fiscal year 2001 were as follows:

	Principal Outstanding 6/30/00	Additions	Deductions	Principal Outstanding 6/30/01
School Construction/Remodeling Bonds 1995 6.25%	\$3,190,000	\$0	\$60,000	\$3,130,000
Intergovernmental Payable (Pension Obligation)	73,830	70,917	73,830	70,917
Compensated Absences	567,104	79,183	79,811	566,476
Total General Long-Term Obligations	<u>\$3,830,934</u>	<u>\$150,100</u>	<u>\$213,641</u>	<u>\$3,767,393</u>

School Construction/Remodeling Bonds

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

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

The School District's overall legal debt margin was \$6,716,715 with an unvoted debt margin of \$103,801 at June 30, 2001.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt at June 30, 2001 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2002	\$75,000	\$193,281	\$268,281
2003	105,000	187,656	292,656
2004	110,000	180,938	290,938
2005	120,000	173,750	293,750
2006	125,000	166,094	291,094
2007-2011	755,000	698,594	1,453,594
2012-2016	1,225,000	395,156	1,620,156
2017-2018	615,000	38,906	653,906
Totals	<u>\$3,130,000</u>	<u>\$2,034,375</u>	<u>\$5,164,375</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers plus the fiscal agent. The School District paid SCOCA \$6,067 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Hopewell Special Education Regional Resource Center (Hopewell)

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

NOTE 16 - INSURANCE PURCHASING POOL

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

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

The Brown County Schools Benefits Consortium, a public entity shared risk pool currently operates to provide health insurance coverage to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Board of Education to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health insurance for the benefit of the consortium members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The School District pays premiums based on what the consortium estimates will cover the costs of all claims for which the consortium is obligated. If the School District's 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. The consortium views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information write to the Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year ended June 30, 2001, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance of June 30, 2000	(\$10,159)	\$0	\$109,481
Current Year Set-aside Requirement	170,659	170,659	0
Reduction in Requirement based on Revised Legislation	0	0	(72,722)
Current Year Offsets	0	(64,593)	0
Qualifying Disbursements	<u>(232,467)</u>	<u>(107,930)</u>	<u>0</u>
Set-aside Balance Carried Forward to Future Years	<u>(\$71,967)</u>	<u>\$0</u>	<u>\$36,759</u>
Set-aside Reserve Balance as of June 30, 2001			<u><u>\$36,759</u></u>

Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for capital acquisition, this extra amount may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year for the capital acquisition set-aside.

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

Eastern Local School District, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 19 - CONTINGENCIES

A. Grants:

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2001.

B. Litigation:

There are currently no matters in litigation with the School District as a defendant.

NOTE 20 - SUBSEQUENT EVENT

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 20, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as a basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED June 30, 2001**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$32,905		\$29,887
National School Lunch Program	LL-P1	10.555	94,909		94,909	
	LL-P4	10.555	32,883		32,883	
Total U.S. Department of Agriculture - Nutrition Cluster			127,792	32,905	127,792	29,887
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Grants to States (IDEA Part B)	6B-SF-99	84.027			8,760	
	6B-SF-00	84.027	82,732		74,770	
			82,732		83,530	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-00	84.010	11,954		33,643	
	C1-S1-00	84.010	322,744		265,938	
			334,698		299,581	
Drug Free Schools Grant	DR-S1-01	84.186	6,130		1,428	
Innovative Educational Program Strategies	C2-S1-00	84.298	0		2,009	
	C2-S1-01	84.298	7,315		7,499	
			7,315		9,508	
Goals 2000 State and Local Education Systemic Improvement	G2-S1-00	84.276			21,266	
	G2-S1-01	84.276	10,532		15,170	
	G2-S2-99	84.276	14,000		14,000	
			24,532		50,436	
Eisenhower Math and Science	MS-S1-2000	84.281	9,087		9,087	
	MS-S1-2001	84.281	8,484		8,484	
			17,571		17,571	
Reducing Class Size	CR-S1-00	84.340	0		17,128	
	CR-S1-01	84.340	50,867		50,867	
			50,867		67,995	
Total Department of Education			523,845		530,049	
Totals			\$651,637	\$32,905	\$657,841	\$29,887

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had an insignificant amount of food commodities in their inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

We have audited the financial statements of the Eastern Local School District, Brown County, Ohio (the District), as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated December 20, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 20, 2001.

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

Jim Petro
Auditor of State

December 20, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Eastern Local School District
Brown County
P.O. Box 500
Sardinia, Ohio 45171

To the Board of Education:

Compliance

We have audited the compliance of the Eastern Local School District, Brown County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2001. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2001.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

December 20, 2001

**EASTERN LOCAL SCHOOL DISTRICT
BROWN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
JANUARY 10, 2002**