



**Auditor of State
Betty Montgomery**

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	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	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) – All Governmental Fund Types.....	8
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings – All Proprietary Fund Types	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Budget and Actual (Non-GAAP Basis) – All Proprietary Fund Types.....	12
Combined Statement of Cash Flows – All Proprietary Fund Types	14
Notes to Financial Statements	15
Schedule of Federal Awards Expenditures.....	37
Notes to the Schedule of Federal Awards Expenditures	38
Report of Independent Accountants' on Compliance and on Internal Control Required By <i>Government Auditing Standards</i>	39
Report of Independent Accountants' on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.	41
Schedule of Findings - <i>OMB Circular A-133 §.505</i>	43

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of Eastern Local School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the School 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 Eastern Local School District, Pike County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2003, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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Eastern Local School District
Pike County
Independent Accountants' Report
Page 2

The accompanying federal awards expenditures schedule 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. In our opinion, it is fairly stated in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 15, 2003

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**Eastern Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Equity in Cash and Cash Equivalents	\$1,237,138	\$337,677	\$127,950	\$2,957,084
Restricted Cash:				
Equity in Cash and Cash Equivalents	208,732	0	0	0
Cash with Fiscal Agents	0	0	0	200,608
Taxes Receivables	721,836	17,385	140,183	0
Accounts Receivables	574	198	0	0
Intergovernmental Receivables	0	41,297	0	3,158,476
Inventory for Resale	0	0	0	0
Inventory	1,349	0	0	0
Prepaid Expenses	9,073	0	0	0
Property, Plant, and Equipment - Net of Depreciation	0	0	0	0
Amount Available In Debt Service	0	0	0	0
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0
Total Assets and Other Debits	\$2,178,702	\$396,557	\$268,133	\$6,316,168
Liabilities:				
Accounts Payable	\$43,753	\$2,666	\$0	\$0
Contracts Payable	0	0	0	185,954
Retainage Payable	0	0	0	200,608
Intergovernmental Payables	184,794	24,711	0	0
Accrued Salaries and Benefits	393,027	105,242	0	0
Claims Payable	0	0	0	0
Deferred Revenue	661,211	27,203	128,354	3,158,476
Due to Students	0	0	0	0
General Obligation Notes Payable	0	0	0	0
Compensated Absences Payable	11,046	0	0	0
Total Liabilities	1,293,831	159,822	128,354	3,545,038
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings	0	0	0	0
Fund Balances:				
Reserved for Property Taxes	60,625	1,479	11,829	0
Reserved for Inventory	1,349	0	0	0
Reserved for Encumbrances	98,901	26,387	0	1,169,887
Reserved for Textbooks & Materials	149,360	0	0	0
Reserved for Bus Purchase	30,133	0	0	0
Designated for Budget Stabilization	29,239	0	0	0
Unreserved Fund Balance	515,264	208,869	127,950	1,601,243
Total Fund Balances	884,871	236,735	139,779	2,771,130
Total Fund Balances/Retained Earnings and Other Credits	884,871	236,735	139,779	2,771,130
Total Liabilities, Fund Equity, and Other Credits	\$2,178,702	\$396,557	\$268,133	\$6,316,168

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long Term Debt	
\$5,576	\$16,237	\$23,179	\$0	\$0	\$4,704,841
0	0	0	0	0	208,732
0	0	0	0	0	200,608
0	0	0	0	0	879,404
0	0	0	0	0	772
16,428	0	0	0	0	3,216,201
4,956	0	0	0	0	4,956
33	0	0	0	0	1,382
0	0	0	0	0	9,073
201,128	0	0	24,459,523	0	24,660,651
0	0	0	0	139,779	139,779
0	0	0	0	1,430,980	1,430,980
<u>\$228,121</u>	<u>\$16,237</u>	<u>\$23,179</u>	<u>\$24,459,523</u>	<u>\$1,570,759</u>	<u>\$35,457,379</u>
\$0	\$0	\$0	\$0	\$0	\$46,419
0	0	0	0	0	185,954
0	0	0	0	0	200,608
20,311	0	0	0	93,446	323,262
15,465	0	0	0	0	513,734
0	2,930	0	0	0	2,930
3,748	0	0	0	0	3,978,992
0	0	23,179	0	0	23,179
0	0	0	0	1,235,000	1,235,000
0	0	0	0	242,313	253,359
39,524	2,930	23,179	0	1,570,759	6,763,437
0	0	0	24,459,523	0	24,459,523
188,597	13,307	0	0	0	201,904
0	0	0	0	0	73,933
0	0	0	0	0	1,349
0	0	0	0	0	1,295,175
0	0	0	0	0	149,360
0	0	0	0	0	30,133
0	0	0	0	0	29,239
0	0	0	0	0	2,453,326
0	0	0	0	0	4,032,515
<u>188,597</u>	<u>13,307</u>	<u>0</u>	<u>24,459,523</u>	<u>0</u>	<u>28,693,942</u>
<u>\$228,121</u>	<u>\$16,237</u>	<u>\$23,179</u>	<u>\$24,459,523</u>	<u>\$1,570,759</u>	<u>\$35,457,379</u>

Eastern Local School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types
Year Ended June 30, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES:					
Revenue from Local Sources:					
Taxes	\$677,151	\$16,272	\$131,269	\$0	\$824,692
Rent	335	0	0	0	335
Interest	53,752	0	0	90,059	143,811
Extracurricular Activities	0	44,766	0	0	44,766
Gifts and Donations	3,162	6,548	0	0	9,710
Tuition & Fees	9,329	75	0	0	9,404
Customer Services	0	1,214	0	0	1,214
Miscellaneous	26,383	5,706	0	605	32,694
Intergovernmental	4,628,842	942,631	16,280	1,211,181	6,798,934
Total Revenues	5,398,954	1,017,212	147,549	1,301,845	7,865,560
EXPENDITURES:					
Current:					
Instruction					
Regular Instruction	2,559,775	437,891	0	48,794	3,046,460
Special Instruction	319,983	293,521	0	0	613,504
Vocational Instruction/Other	80,035	3,578	0	0	83,613
Supporting Services					
Supporting Services - Pupils	229,502	94,531	0	0	324,033
Supporting Services - Instructional Staff	225,879	122,731	0	0	348,610
Supporting Services - Board of Education	22,357	0	0	0	22,357
Administration	679,619	18,360	739	0	698,718
Fiscal Services	184,149	7,014	4,079	0	195,242
Operation & Maintenance - Plant	508,037	0	0	0	508,037
Pupil Transportation	596,375	9,233	0	0	605,608
Central	4,983	495	0	0	5,478
Operation of Non-Instructional Services	0	1,018	0	0	1,018
Extracurricular Activities	77,201	43,455	0	0	120,656
Capital Outlay	0	0	0	5,139,132	5,139,132
Debt Service					
Debt Service - Principal	0	0	40,000	0	40,000
Debt Service - Interest	0	0	64,638	0	64,638
Total Expenditures	5,487,895	1,031,827	109,456	5,187,926	11,817,104
Excess (Deficiency) of Revenues Over (Under) Expenditures	(88,941)	(14,615)	38,093	(3,886,081)	(3,951,544)
Other Financing Sources and Uses:					
Proceeds from Sale of Assets	50,001	0	0	0	50,001
Transfers In	0	5,823	0	0	5,823
Transfers Out	(44,491)	0	0	0	(44,491)
Net Other Financing Sources and Uses	5,510	5,823	0	0	11,333
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure Disbursements and Other Uses	(83,431)	(8,792)	38,093	(3,886,081)	(3,940,211)
Beginning Fund Balance - Restated Note 20	972,006	245,527	101,686	6,657,211	7,976,430
Decrease in Reserve for Inventory	(3,704)	0	0	0	(3,704)
Ending Fund Balance	\$884,871	\$236,735	\$139,779	\$2,771,130	\$4,032,515

See Accompanying Notes to the General Purpose Financial Statements.

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Eastern Local School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (non-GAAP Basis)
All Governmental Fund Types
Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Revenue from Local Sources:						
Taxes	\$666,112	\$666,112	\$0	\$15,998	\$15,998	\$0
Rent	335	335	0	0	0	0
Interest	55,601	55,601	0	0	0	0
Extracurricular Activities	0	0	0	44,766	44,766	0
Tuition & Fees	9,329	9,329	0	75	75	0
Customer Services	0	0	0	1,214	1,214	0
Gifts & Donations	3,162	3,162	0	6,548	6,548	0
Miscellaneous	871	871	0	5,508	5,508	0
Intergovernmental	4,630,763	4,630,763	0	912,679	912,679	0
Total Revenues	<u>5,366,173</u>	<u>5,366,173</u>	<u>0</u>	<u>986,788</u>	<u>986,788</u>	<u>0</u>
EXPENDITURES:						
Current:						
Instruction:						
Regular	2,521,488	2,521,488	0	464,415	464,415	0
Special	316,702	316,702	0	290,112	290,112	0
Vocational	59,351	59,351	0	0	0	0
Other	21,294	21,294	0	578	578	0
Supporting Services:						
Pupils	226,283	226,283	0	89,321	89,321	0
Instructional Staff	224,122	224,122	0	121,132	121,132	0
Board of Education	35,301	35,301	0	0	0	0
Administration	683,197	683,197	0	18,016	18,016	0
Fiscal Services	190,222	190,222	0	7,014	7,014	0
Operation & Maintenance - Plant	587,703	587,703	0	0	0	0
Pupil Transportation	705,178	705,178	0	9,233	9,233	0
Central	5,098	5,098	0	495	495	0
Operation of Non-Instructional Services	0	0	0	1,018	1,018	0
Extracurricular Activities	77,604	77,604	0	48,506	48,506	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Debt Service - Principal	0	0	0	0	0	0
Debt Service - Interest	0	0	0	0	0	0
Total Expenditures	<u>5,653,543</u>	<u>5,653,543</u>	<u>0</u>	<u>1,049,840</u>	<u>1,049,840</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(287,370)	(287,370)	0	(63,052)	(63,052)	0
Other Financing Sources and Uses:						
Proceeds from Sale of Fixed Assets	50,001	50,001	0	0	0	0
Refund of Prior Year Expenditures	24,988	24,988	0	22	22	0
Advances In	944	944	0	0	0	0
Advances Out	0	0	0	(944)	(944)	0
Transfers In	0	0	0	5,823	5,823	0
Refund of Prior Year Receipts	0	0	0	(3,000)	(3,000)	0
Transfers Out	(44,491)	(44,491)	0	0	0	0
Net Other Financing Sources and Uses	<u>31,442</u>	<u>31,442</u>	<u>0</u>	<u>1,901</u>	<u>1,901</u>	<u>0</u>
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure Disbursements and Other Uses	(255,928)	(255,928)	0	(61,151)	(61,151)	0
Prior Year Carryover Encumbrances	199,958	199,958	0	42,644	42,644	0
Beginning Fund Balance	1,360,107	1,360,107	0	329,526	329,526	0
Ending Fund Balance	<u>\$1,304,137</u>	<u>\$1,304,137</u>	<u>\$0</u>	<u>\$311,019</u>	<u>\$311,019</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements.

Debt Service Fund			Capital Projects Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$129,104	\$129,104	\$0	\$0	\$0	\$0	\$811,214	\$811,214	\$0
0	0	0	0	0	0	335	335	0
0	0	0	94,004	94,004	0	149,605	149,605	0
0	0	0	0	0	0	44,766	44,766	0
0	0	0	0	0	0	9,404	9,404	0
0	0	0	0	0	0	1,214	1,214	0
0	0	0	0	0	0	9,710	9,710	0
0	0	0	605	605	0	6,984	6,984	0
16,657	16,657	0	1,211,181	1,211,181	0	6,771,280	6,771,280	0
145,761	145,761	0	1,305,790	1,305,790	0	7,804,512	7,804,512	0
0	0	0	48,794	48,794	0	3,034,697	3,034,697	0
0	0	0	0	0	0	606,814	606,814	0
0	0	0	0	0	0	59,351	59,351	0
0	0	0	0	0	0	21,872	21,872	0
0	0	0	0	0	0	315,604	315,604	0
0	0	0	0	0	0	345,254	345,254	0
0	0	0	0	0	0	35,301	35,301	0
738	738	0	0	0	0	701,951	701,951	0
4,074	4,074	0	0	0	0	201,310	201,310	0
0	0	0	0	0	0	587,703	587,703	0
0	0	0	0	0	0	714,411	714,411	0
0	0	0	0	0	0	5,593	5,593	0
0	0	0	0	0	0	1,018	1,018	0
0	0	0	0	0	0	126,110	126,110	0
0	0	0	7,047,852	7,047,852	0	7,047,852	7,047,852	0
40,000	40,000	0	0	0	0	40,000	40,000	0
64,638	64,638	0	0	0	0	64,638	64,638	0
109,450	109,450	0	7,096,646	7,096,646	0	13,909,479	13,909,479	0
36,311	36,311	0	(5,790,856)	(5,790,856)	0	(6,104,967)	(6,104,967)	0
0	0	0	0	0	0	50,001	50,001	0
0	0	0	0	0	0	25,010	25,010	0
0	0	0	0	0	0	944	944	0
0	0	0	0	0	0	(944)	(944)	0
0	0	0	0	0	0	5,823	5,823	0
0	0	0	0	0	0	(3,000)	(3,000)	0
0	0	0	0	0	0	(44,491)	(44,491)	0
0	0	0	0	0	0	33,343	33,343	0
36,311	36,311	0	(5,790,856)	(5,790,856)	0	(6,071,624)	(6,071,624)	0
0	0	0	5,079,123	5,079,123	0	5,321,725	5,321,725	0
91,641	91,641	0	2,513,583	2,513,583	0	4,294,857	4,294,857	0
\$127,952	\$127,952	\$0	\$1,801,850	\$1,801,850	\$0	\$3,544,958	\$3,544,958	\$0

Eastern Local School District
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types
Year Ended June 30, 2002

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise Fund	Internal Service	
Operating Revenues:			
Sales	\$90,927	\$0	\$90,927
Charges for Services	0	48,890	48,890
Other Revenue	2,303	0	2,303
Total Operating Revenues	<u>93,230</u>	<u>48,890</u>	<u>142,120</u>
Operating Expenses:			
Personal Services - Salary	99,076	0	99,076
Employee Benefits	53,531	0	53,531
Purchased Services	445	0	445
Supplies and Materials	16,156	0	16,156
Claims	0	50,451	50,451
Cost of Sales	132,740	0	132,740
Depreciation	8,753	0	8,753
Other Expenses	171	0	171
Total Operating Expenses	<u>310,872</u>	<u>50,451</u>	<u>361,323</u>
Operating Loss	(217,642)	(1,561)	(219,203)
Non-Operating Revenues:			
State and Federal Grants-In-Aid	175,495	0	175,495
Other	130,480	0	130,480
Federal Donated Commodities	22,775	0	22,775
Total Non-Operating Revenues	<u>328,750</u>	<u>0</u>	<u>328,750</u>
Operating Transfer - In	38,668	0	38,668
Net Income (Loss)	149,776	(1,561)	148,215
Beginning Retained Earnings - Restated Note 20	38,821	14,868	53,689
Retained Earnings at End of Year	<u>\$188,597</u>	<u>\$13,307</u>	<u>\$201,904</u>

See Accompanying Notes to the General Purpose Financial Statements.

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Eastern Local School District
Combined Statement of Revenues, Expenses, and Changes in Fund Equity
Budget and Actual (non-GAAP Basis)
All Proprietary Fund Types
Year Ended June 30, 2002

	Enterprise Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:			
Sales	\$90,927	\$90,927	\$0
Charges for Services	0	0	0
Refund of Prior Year Expense	2,303	2,303	0
Total Operating Revenues	93,230	93,230	0
OPERATING EXPENSES:			
Salaries	108,812	108,812	0
Fringe Benefits	44,906	44,906	0
Purchased Services	445	445	0
Materials and Supplies	128,415	128,415	0
Other	171	171	0
Capital Outlay	2,640	2,640	0
Total Operating Expenses	285,389	285,389	0
Operating Income (Loss)	(192,159)	(192,159)	0
Non-Operating Revenues and (Expenses):			
Federal and State Subsidies	159,067	159,067	0
Operating Transfer In	38,668	38,668	0
Excess (Deficiency) of Revenue and Other Over (Under) Expenses and Other	5,576	5,576	0
Prior Year Carryover Encumbrances	7,105	7,105	0
Beginning Fund Balance	(7,105)	(7,105)	0
Ending Fund Balance	\$5,576	\$5,576	\$0

See Accompanying Notes to the General Purpose Financial Statements.

Internal Service Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$90,927	\$90,927	\$0
48,890	48,890	0	48,890	48,890	0
0	0	0	2,303	2,303	0
48,890	48,890	0	142,120	142,120	0
0	0	0	108,812	108,812	0
0	0	0	44,906	44,906	0
51,751	51,751	0	52,196	52,196	0
0	0	0	128,415	128,415	0
0	0	0	171	171	0
0	0	0	2,640	2,640	0
51,751	51,751	0	337,140	337,140	0
(2,861)	(2,861)	0	(195,020)	(195,020)	0
0	0	0	159,067	159,067	0
0	0	0	38,668	38,668	0
(2,861)	(2,861)	0	2,715	2,715	0
0	0	0	7,105	7,105	0
19,098	19,098	0	11,993	11,993	0
\$16,237	\$16,237	\$0	\$21,813	\$21,813	\$0

Eastern Local School District
Combined Statement of Cash Flows
All Proprietary Fund Types
For the Fiscal Year Ended June 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$90,927	\$0	\$90,927
Cash Received from Quasi-External Transactions With Other Funds	0	48,890	48,890
Cash Received from Other Operating Sources	2,303	0	2,303
Cash Payments to Suppliers for Goods and Services	(129,031)	0	(129,031)
Cash Payments to Employees for Services	(108,813)	0	(108,813)
Cash Payments for Employee Benefits	(44,906)	0	(44,906)
Cash Payments for Claims	0	(51,751)	(51,751)
Net Cash Provided by Operating Activities	<u>(189,520)</u>	<u>(2,861)</u>	<u>(192,381)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Federal and State Subsidies	159,067	0	159,067
Operating Transfers In	38,668	0	38,668
Net Cash Provided by Noncapital Financing Activities	<u>197,735</u>	<u>0</u>	<u>197,735</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Payments for Capital Acquisitions	(2,639)	0	(2,639)
Net Cash Used for Noncapital Financing Activities	<u>(2,639)</u>	<u>0</u>	<u>(2,639)</u>
Net Increase in Cash and Cash Equivalents	5,576	(2,861)	2,714
Cash and Cash Equivalents at Beginning of Year	0	19,098	19,098
Cash and Cash Equivalents at End of Year	<u>\$5,576</u>	<u>\$16,237</u>	<u>\$21,813</u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>			
Operating Loss	(\$217,642)	(\$1,561)	(\$219,203)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>			
Depreciation	8,753	0	8,753
Donated Commodities Used During Year	22,775	0	22,775
<u>Changes in Assets and Liabilities:</u>			
Decrease in Materials and Supplies Inventory	184	0	184
Decrease in Inventory Held for Resale	33	0	33
Decrease in Accounts Payable	(2,511)	0	(2,511)
Decrease in Accrued Wages and Benefits	(3,174)	0	(3,174)
Decrease in Compensated Absences Payable	(6,928)	0	(6,928)
Increase in Intergovernmental Payable	8,990	0	8,990
Decrease in Claims Payable	0	(1,300)	(1,300)
Total Adjustments	<u>28,122</u>	<u>(1,300)</u>	<u>26,822</u>
Net Cash Provided by Operating Activities	<u>(\$189,520)</u>	<u>(\$2,861)</u>	<u>(\$192,381)</u>

See Accompanying Notes to the General-Purpose Financial Statements

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1960 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 107 square miles. It is located in Pike County, and includes all of the Villages of Beaver and Stockdale and portions of Marion, Union, and East Jackson Townships in Pike County, Madison Township in Scioto County and Liberty Township in Jackson County. It is staffed by 44 non-certificated employees, 75 certificated full-time teaching personnel, and 6 administrators who provide services to 935 students and other community members. The School District currently operates three instructional buildings.

Reporting Entity:

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

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District.

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

The School District participates in four organizations, three of which are defined as jointly governed organizations, and one as a group purchasing pool. These organizations are the South Central Ohio Computer Association, the Pike County Joint Vocational School, the Pilasco-Ross Special Education Regional Resource Center, and the Ohio School Boards Association Workers=Compensation Group Rating Plan. These organizations are presented in Notes 14 and 16 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or 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 Types:

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 are the School District's proprietary fund types:

Enterprise Fund - Enterprise funds are 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.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

Internal Service Fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

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.

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 fund types 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.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The School District has no contributed capital. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., 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 funds.

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

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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 6.) 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest 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, 2002, but which were levied to finance fiscal year 2003 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 on 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 object level within each function and fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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.

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

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

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 2002. At year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

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, function, and object level of expenditures, which are the legal levels 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 the legal 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, one supplemental appropriation was legally enacted. Contrary to the Revised Code, the District's appropriations exceeded estimated resources in several funds during fiscal year 2002. In addition, actual expenditures plus encumbrances exceeded appropriations at the legal level of control at year end.

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 during the year for all funds other than agency funds, consistent with statutory provisions. Prior to year-end, the School District passed a supplemental appropriation that reflected actual expenditures for the fiscal year.

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.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

During fiscal year 2002, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$53,752 and \$90,059 for the Capital Project Funds.

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. Restricted Assets

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

Retainage held until the completion of major construction projects is held in separate bank accounts and presented as Restricted Assets: Cash with Fiscal Agents in the capital projects funds.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, non-food supplies, purchased food, and school supplies held for resale and are expensed when used.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. 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 funds 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 \$1,500. The School District does not have any infrastructure.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

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. During fiscal year 2002, the School District has increased its threshold for which fixed assets are to be reported from \$500 to \$1,500.

Assets in the general fixed assets account group are depreciated using the straight-line method over an estimated useful life of 20 to 25 years for buildings and improvements, and 10 to 15 years for vehicles and furniture, fixtures and equipment. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of 15 years.

Estimated historical costs for capital asset values were determined on June 30, 2002 by utilizing the services of Valuation Engineers, Inc.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as interfund receivables and interfund payables.

J. 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 20 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 proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. 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, 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. Bonds are reported as a liability of the general long-term obligations account group until due.

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

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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.

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

M. Fund Balance Reserves

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

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

N. Estimates

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

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, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Accountability - Fund Equity Deficits

At June 30, 2002, the Goals 2000 Program Special Revenue Fund had a fund balance deficit of \$107 which was created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Proprietary Fund Types 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 disclosure in the proprietary fund type (GAAP basis); and
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$83,431)	(\$8,792)	\$38,093	(\$3,886,081)
Revenue Accruals	(7,793)	(30,402)	(1,788)	3,945
Expenditure Accruals	(23,917)	5,644	6	(552,879)
Advances	944	(944)	0	0
Encumbrances	(141,731)	(26,657)	0	(1,355,841)
Budget Basis	<u>(\$255,928)</u>	<u>(\$61,151)</u>	<u>\$36,311</u>	<u>(\$5,790,856)</u>

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

	Net Income (Loss) / Excess of Revenues Over/(Under) Expenses and Transfers All Proprietary Fund Types	
	Enterprise	Internal Service
GAAP Basis	\$149,776	(\$1,561)
Revenue Accruals	(169,683)	0
Expense Accruals	25,483	(1,300)
Budget Basis	\$5,576	(\$2,861)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$5,114,181 and the bank balance was \$5,372,725. Of the bank balance, \$100,000 was covered by federal deposit insurance and \$5,272,725 was insured and collateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

At June 30, 2002, the School District had no outstanding investments.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 6 - PROPERTY TAXES (Continued)

Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

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. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

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

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

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$25,594,940	78.19%	\$22,381,670	81.49%
Public Utility	6,035,500	18.44%	3,974,730	14.47%
Tangible Personal Property	1,102,860	3.37%	1,107,690	4.04%
Total Assessed Value	<u>\$32,733,300</u>	<u>100.00%</u>	<u>\$27,464,090</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$33.51		\$33.51	

The School District receives property taxes from Pike County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2002, was \$60,625 in the General Fund, \$1,479 in the Classroom Facilities Maintenance Special Revenue Fund, and \$11,829 in the Debt Service Fund.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002, consisted of property taxes, interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amount
Special Revenue Funds:	
Dwight D. Eisenhower	\$847
Title I	30,000
Drug Free Grant	6,984
Title VI	3,466
Total Special Revenue Funds	41,297
Lunchroom Enterprise Fund	16,428
Classroom Facilities Building Capital Projects Fund	3,158,476
Total All Funds	\$3,216,201

NOTE 8 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$212,528
Less Accumulated Depreciation	(11,400)
Net Fixed Assets	\$201,128

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 6/30/01	Additions	Deletions	Balance at 6/30/02
Land and Improvements	\$558,318	\$912,445	\$437,908	\$1,032,855
Buildings and Improvements	1,822,130	22,739,897	1,793,245	22,768,782
Furniture, Fixtures and Equipment	333,934	689,524	0	1,023,458
Vehicles	1,269,361	0	0	1,269,361
Sewage Plant	13,131	0	13,131	0
Textbooks	522,523	0	0	522,523
Construction in Progress	16,896,147	5,843,750	22,739,897	0
Totals	\$21,415,544	\$30,185,616	\$24,984,181	26,616,979
Less Accumulated Depreciation				(2,157,456)
Total General Fixed Assets				\$24,459,523

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Lorbach Insurance Company and Nationwide Mutual Insurance Company for property and fleet insurance, professional liability insurance and professional liability insurance coverage. Coverages provided are as follows:

Builder's Risk Insurance	\$17,157,232
Building and Contents-80% Co-insurance (\$1,000 deductible)	5,526,956
Boiler and Machinery-80% Co-insurance (\$1,000 deductible)	4,215,724
Crime Insurance	4,000
Automobile Liability	300,000
Uninsured Motorists	300,000
Professional Liability (aggregate limit)	5,000,000
Public Official Bonds: Treasurer / Superintendent / Board President (each)	20,000
Assistant Treasurer	3,000
Blanket bond	5,000

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

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each 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.

Dental insurance is offered to employees through a self-insurance internal service fund. Coresource is the School District's third party administrator who informs the School District of claim payments needed each week. Coresource provides an actuarial study each year and advises the School District as to any change needed in premium payments to the internal service fund. The claims liability of \$2,930 reported in the internal service fund at June 30, 2002 is based on an estimate provided by Coresource and the requirements of *GASB Statement No. 30 Risk Financing Omnibus*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

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

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
	_____	_____	_____	_____
2000	\$3,432	\$51,629	\$51,008	\$4,053
2001	4,053	47,202	47,025	4,230
2002	4,230	50,451	51,751	2,930

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 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. For fiscal year 2002, 5.46% was the portion allocated 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, 2002, 2001, and 2000 were \$51,384, \$52,572, and \$42,097, respectively; 6 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$48,364 representing the unpaid contribution for fiscal year 2002, 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 defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, 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. 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, 2002, 2001, and 2000 were \$292,541, \$342,894, and \$170,149, respectively; 66 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$98,507 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All 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, 2002, 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 \$135,748 for fiscal year 2002.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll a decrease of 1.26 percent. 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 2002, 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 2002 fiscal year equaled \$104,248.

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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.27 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators, with the exception of the Superintendent and Treasurer, do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 215 days for all personnel. Upon retirement and after being employed in the District for twenty years, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days.

B. Life Insurance and Health Care Benefits

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

C. Deferred Compensation

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

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Obligations Outstanding 6/30/01	Additions	Deductions	Obligations Outstanding 6/30/02
1998 School Improvement General Obligation Bonds - 4.0% - 5.0%	\$1,275,000	\$0	\$40,000	\$1,235,000
Pension Obligation	77,034	93,446	77,034	93,446
Compensated Absences	247,636	0	5,323	242,313
Total General Long-Term Obligations	<u>\$1,599,670</u>	<u>\$93,446</u>	<u>\$122,357</u>	<u>\$1,570,759</u>

Pension obligations and compensated absences will be paid from the fund from which the employees are paid.

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

Principal and interest requirements to retire general obligation debt at June 30, 2002, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2003	\$40,000	\$62,910	\$102,910
2004	40,000	61,140	101,140
2005	45,000	59,226	104,226
2006	45,000	57,156	102,156
2007	50,000	54,935	104,935
2008-2012	280,000	234,936	514,936
2013-2017	365,000	143,125	508,125
2018-2021	<u>370,000</u>	<u>38,250</u>	<u>408,250</u>
Total	<u>\$1,235,000</u>	<u>\$711,678</u>	<u>\$1,946,678</u>

The School District's overall legal debt margin was \$1,236,768 with an unvoted debt margin of \$27,464 at June 30, 2002.

NOTE 14 - GROUP PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRPs 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.

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 15 - CONTRACTUAL COMMITMENTS

As of June 30, 2002, the School District had contractual purchase commitments for the construction of a new K-12 facility. The project is financed by bond proceeds and a school facilities grant in the amount of \$22,326,111 from the State of Ohio. Outstanding contracts are as follows:

Contractor	Contract Amount	Amount Expended	Balance at 6/30/02
Stockmeister Enterprises	\$8,923,219	\$8,600,570	\$322,649
Mechanical Construction (HVAC)	2,894,329	2,822,683	71,646
Mechanical Construction (Plumbing)	781,542	761,964	19,578
Central Fire	280,894	266,925	13,969
West End Electric	2,149,169	2,065,775	83,394
Continental Office	155,161	106,516	48,645
Norris Kindell	46,830	37,464	9,366
Furniture Focus	19,664	0	19,664
School Specialty	142,812	0	142,812
Farnham Equipment	120,530	0	120,530
Ingel Barr	596,877	183,435	413,442
Contemporary Galleries	70,052	57,493	12,559
Paxton Patterson	48,845	43,961	4,884
Thomas Ruff	65,071	52,057	13,014
Key Blueprints	86,245	72,407	13,838
Wasserstrom Company	290,767	282,631	8,136
Gilbane	1,114,244	850,675	263,569
Tanner, Stone and Co.	1,345,858	1,309,114	36,744
Total	<u>\$19,132,109</u>	<u>\$17,513,670</u>	<u>\$1,618,439</u>

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus the fiscal agent. The School District paid SCOCA \$4,568 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
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

The Pike County Joint Vocational School - The Pike County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of the Pike County Board of Education and two representatives from the Waverly City Schools Board of Education, which possesses its own budgeting and taxing authority. To obtain financial information write to the Pike County Joint Vocational School, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

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

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year ended June 30, 2002, the School District is no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2001	\$145,378	\$107,318	\$29,239
Current year set-aside requirement	98,594	98,594	0
Current year offsets	0	(15,998)	0
Qualifying disbursements	(94,612)	(5,550,349)	0
Set-aside Reserve Balance as of June 30, 2002	\$149,360	(\$5,360,435)	\$29,239

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

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 18 - 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, 2002.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of this and any other claims will not have a material effect, if any, on the financial condition of the School District.

NOTE 19 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school funding scheme that is thorough and efficient. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 20 – RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS

Accounting errors were noted in several funds due to interfund activity. The retained earnings at June 30, 2001 of the Enterprise Fund was restated from amounts previously reported to eliminate the reporting of Property, Plant, and Equipment below the capitalization threshold, which was increased from \$500 to \$1,500. The increase in the capitalization threshold, as well as, an asset re-appraisal resulted in the General Fixed Asset Account Group being restated from the balance previously stated of \$22,458,887 to \$21,415,544. These restatements had the following effect on fund balance/retained earnings as they were previously reported as of June 30, 2001.

	Balance June 30, 2001	Adjustment	Restated Balance July 1, 2001
General Fund	\$1,013,262	(\$41,256)	\$972,006
Special Revenue Funds	218,762	26,765	245,527
Capital Projects Funds	6,642,719	14,492	6,657,211
Enterprise Fund	(28,812)	67,633	38,821
General Fixed Assets	22,458,887	(1,043,343)	21,415,544

Eastern Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002 (Continued)

NOTE 21 – SUBSEQUENT EVENTS

The School District's Board of Education, upon the guidance of its legal counsel, passed a resolution on September 19, 2002 that conferred its power and/or authority to the School District's Superintendent. The resolution states, in part, "Now, Therefore, be it resolved, that the Board of Education does authorize the Superintendent to take whatever steps she may deem necessary to maintain the efficient and safe operation of the school district." The resolution also provides, "The Superintendent is authorized to hire necessary substitute certified employees and to pay substitute employees \$180 per day for the duration of the withdrawal." On April 21, 2003, the Pike County Court of Common Pleas concluded that, "there is a paucity of evidence produced by the petitioners to prove that these three named board members refused or 'willfully' neglected '...to enforce the law or to perform any official duty imposed by law ...' during this brief time period relative to the hiring of uncertified substitute teachers." The Court found "that the conduct of the three named board members did not rise to the level necessary under ORC Sec. 3.07 to constitute forfeiture of their respective offices [sic]." Judgment was rendered in favor of the board members. As a result, the board members have no intention of appealing the court's decision.

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EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	10.550	N/A	\$	\$ 22,775	\$	\$ 23,974
School Breakfast Program	10.553	05-PU-01	5,381		5,381	
		05-PU-02	28,556		28,556	
Total School Breakfast Program			33,937	0	33,937	0
National School Lunch Program	10.555	LL-P4-01	14,880		14,880	
		LL-P4-02	92,185		92,185	
Total National School Lunch Program			107,065	0	107,065	0
Total Nutrition Cluster			141,002	22,775	141,002	23,974
Total United States Department of Agriculture			141,002	22,775	141,002	23,974
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-00			18,036	
		C1-S1-01			37,596	
		C1-S1-02	321,022		296,674	
Total Title I Grants to Local Educational Agencies			321,022	0	352,306	0
Special Education - Grants to States	84.027	6B-SF-01-P	9,434		22,717	
		6B-SF-02-P	87,261		69,047	
Total Special Education - Grants to States			96,695	0	91,764	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-01			3,041	
		DR-S1-02	1,979			
Total Safe and Drug-Free Schools and Communities - State Grants			1,979	0	3,041	0
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S2-00			654	
		G2-S1-01	15,000		14,209	
		G2-S2-01			12,535	
		G2-S5-01	5,000			
Total Goals 2000 - State and Local Education Systemic Improvement Grant			20,000	0	27,398	0
Eisenhower Professional Development State Grants	84.281	MS-S1-00			50	
		MS-S1-01			753	
		MS-S1-02	7,834			
Total Eisenhower Professional Development State Grants			7,834	0	803	0
Innovative Education Program Strategies	84.298	C2-S1-00	3,385		3,385	
		C2-S1-02	1,416			
Total Innovative Education Program Strategies			4,801	0	3,385	0
Class Size Reduction	84.340	CR-S1-00			2,180	
		CR-S1-01			5,181	
		CR-S1-02	56,433		47,248	
Total Class Size Reduction			56,433	0	54,609	0
Total United States Department of Education			508,764	0	533,306	0
UNITED STATES DEPARTMENT OF LABOR						
<i>Passed through the Ohio Department of Education</i>						
School to Work	17.249	N/A			1,601	
Total United States Department of Labor			0	0	1,601	0
Total Federal Awards Receipts and Expenditures			\$649,766	\$22,775	\$675,909	\$23,974

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

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary 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. As of June 30, 2002, the School District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

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

Eastern Local School District
Pike County
170 Tile Mill Rd
Beaver, Ohio 45613

To the Board of Education:

We have audited the accompanying general purpose financial statements of Eastern Local School District Pike County, Ohio (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated April 15, 2003. 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 School 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated April 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2002-003 through 2002-005.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated April 15, 2003.

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.



Betty Montgomery
Auditor of State

April 15, 2003



Auditor of State Betty Montgomery

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

Eastern Local School District
Pike County
170 Tile Mill Rd
Beaver, Ohio 45613

To the Board of Education:

Compliance

We have audited the compliance of Eastern Local School District, Pike County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School 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 School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control over Compliance

The management of the School 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 School 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.

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Eastern Local School District
Pike County
Independent Accountants' Report on Compliance with
Requirements Applicable to Each Major Federal Program and
Internal Control Over Compliance in Accordance with OMB Circular A-133
Page 2

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.



Betty Montgomery
Auditor of State

April 15, 2003

**VINTON LOCAL SCHOOL DISTRICT
VINTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10766-001

Noncompliance Citation

Ohio Rev. Code § 705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Actual expenditures, plus outstanding encumbrances, exceeded the appropriation authority at the legal level of control for the following line items:

<u>Line item</u>	<u>Total Appropriations</u>	<u>Expenditures plus Encumbrance</u>	<u>Variance</u>
001-1300-200	\$9,501	\$10,242	(\$741)
001-2100-200	26,920	34,521	(7,601)
001-2500-100	85,849	99,281	(13,432)
001-2500-200	23,669	25,254	(1,585)
001-2500-800	39,553	41,452	(1,899)
001-4100-100	4,982	7,027	(2,045)
001-4100-200	766	997	(231)
001-4300-100	0	894	(894)
001-4500-100	40,506	41,524	(1,018)
001-1100-400	10,000	10,539	(539)
001-1100-500	176,383	220,816	(44,433)
001-1100-600	5,600	8,034	(2,434)
001-2400-500	2,500	14,337	(11,837)
001-2700-500	9,000	22,955	(13,955)
001-2700-600	0	5,389	(5,389)
001-2800-400	3,000	6,605	(3,605)
001-2700-600	0	43,882	(43,882)
018-2100-400	780	1,125	(345)
018-2100-500	9,221	9,930	(709)

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-001 (Continued)

Noncompliance Citation- Ohio Rev. Code §5705.41 (B) (Continued)

<u>Line Item</u>	<u>Total Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
018-2100-500	\$9,221	\$9,930	(\$709)
018-2100-900	0	500	(500)
018-2100-400	26	6,326	(6,300)
032-1100-600	10,513	11,016	(503)
032-2200-400	0	6,326	(6,326)
200-4100-800	2,668	3,909	(1,241)
200-4100-800	1,705	2,986	(1,281)
200-4600-800	1,254	9,227	(7,973)
200-4600-800	1,500	2,856	(1,356)
300-4500-100	1,598	1,977	(379)
300-4500-500	12,055	21,428	(9,373)
300-4500-600	2,160	5,253	(3,093)
300-4500-400	1,194	1,662	(468)
459-1100-500	1,497	10,404	(8,907)
459-1100-600	8,248	17,754	(9,506)
499-1100-400	979	1,958	(979)
514-1100-400	0	753	(753)
589-2200-400	5,024	7,842	(2,818)
589-2200-500	2,572	5,098	(2,526)

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

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

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-002

Noncompliance Citation

*Ohio Rev. Code § 5705.39 states the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Appropriations exceeded total estimated resources, (estimated receipts plus unencumbered fund balance to date), at July 1, 2001 in the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
Special Revenue			
District Managed (300)	\$40,528	\$39,431	(\$1,097)
Summer Intervention (460)	22,798	13,328	(9,470)
Misc. St Grants (499)	150,981	43,481	(107,500)
NDEA (514)	11,457	7,247	(4,210)
Title VI (516)	83,054	18,592	(64,462)
Title I (572)	497,434	72,454	(424,980)
Title II (573)	8,482	1,622	(6,860)
Drug Free (584)	10,686	7,686	(3,000)
Goals 2000 (589)	45,495	10,339	(35,156)
Misc Fed Grants	80,671	10,625	(70,046)
Capital Projects			
Classroom Facilities (010)	15,618,385	15,438,662	(179,723)
SchoolNet (450)	45,825	8,500	(37,325)
Tech Equity (454)	23,393	0	(23,393)
Enterprise			
Foodservice	301,837	290,742	(11,095)

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-002 (Continued)

Noncompliance Citation- Ohio Rev. Code §5705.39 (Continued)

For the period December 17, 2001 through June 28, 2002, total appropriations exceeded estimated resources in the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
Special Revenue			
Summer Intervention (460)	\$18,228	\$13,328	(\$4,900)
Drug Free (584)	18,449	16,649	(1,800)
Goals 2000 (589)	26,718	25,339	(1,379)
Misc Fed Grants	67,212	67,081	(131)
Capital Projects			
Classroom Facilities (010)	16,677,258	15,438,662	(1,238,596)
Enterprise			
Foodservice	300,570	290,842	(9,728)

The School District's appropriations did not exceed estimated resources at year end; however, this could cause the School District having expenditures in excess of available balances.

We recommend that, prior to authorizing the original appropriations or approving any amendments, the School District compare the proposed appropriations with the Certificate of Estimate Resources to ensure the appropriations will not exceed the fund's estimated resources. Once appropriations have been adopted, the School District needs to obtain the County Auditor's certification that appropriations do not exceed the estimated resources in any fund.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-003

Reportable Condition

In the record of proceedings, dated November 15, 1999, the Board authorized the Superintendent to approve change orders that substantially modify the contract documents and involve increases, if any, to the amount of the construction contract up to \$10,000 for the new K-12 facility.

The following change orders exceeded \$10,000 and evidence of Board approval was not provided.

<u>Contractor</u>	<u>Amount of Individual Change Order</u>	<u>Cumulative Amount of all Change Orders</u>	<u>Original Contract Amount</u>	<u>Overall Increase from Original Contract</u>
Ingle-Barr, Inc	\$139,137	\$139,137	\$457,740	30%
School Specialty	36,443	36,443	179,256	20%
Mechanical Construction	15,674	25,965	755,577	.03%
West End Electric	15,198			
	86,347			
	15,179			
	11,806			
	<u>17,438</u>			
	145,968	197,169	1,952,000	10%
Stockmeister Enterprises	14,883			
	15,473			
	45,237			
	12,264			
	<u>14,462</u>			
	\$102,319	\$134,775	\$8,797,704	.01%

This could result in overriding limitations set forth by the Board of Education which were intended to keep them informed of significant deviations to originally approved plans and contracts. Such an override eliminates the opportunity for the Board to monitor and measure the results of their decisions and restricts potentially crucial information used by the Board in making informed future financial decisions.

We recommend the School District's Board of Education be presented with and approve all contract changes defined as significant by them and that the record of proceedings reflect those approvals.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-004

Reportable Condition

The School District contracted with Valuation Engineers to inventory all fixed assets. Valuation Engineers prepared a report titled Capital Asset Activity which showed beginning balances, additions, deletions and ending balances of assets by fund and asset class. This report reflected no beginning balances and no deletions for FY 2002. However, the School District had a beginning balance as well as deletions for FY 2002, as indicated in Note 8 to the general purpose financial statements. In addition, the Uniform School Accounting System (USAS system) was not updated to reflect the disposals or additions occurring during the entire year; therefore, the exact errors and omissions in the Valuation Engineers Capital Asset Activity report could not be identified.

In addition, we noted the following from our testing of capital assets:

- A) Some furniture, fixture and equipment purchases may have been omitted from the capital asset additions listing prepared by Valuation Engineers. Supporting information for these purchases was vague and could not be specifically traced or agreed to the addition list. In a few cases, the descriptions on both the supporting documentation and the addition listing were comparable; however, we could not conclude whether they were the same items since the amounts actually paid did not agree to original cost listed on the addition list.

- B) The School District held three separate auctions at each of the old school buildings and, according to the School District Treasurer all assets were sold with the exception of some computer equipment which was transferred to the new school buildings. We noted that some other assets, such as band instruments, cafeteria equipment and buses, were apparently not sold but moved to the new buildings. No inventory was taken before the sale and no record of what was sold was maintained. A local auctioneer was hired to conduct the auctions and no records were provided to the School District in order to update the USAS system for the deletions. Subsequent to the public sales, the auctioneer remitted \$50,000 to the School District for the assets (reported on the audited Operating Statement as Sale of Assets). The School District relied solely on the Auctioneer to sell the assets, collect, deposit and remit the proceeds from the auction. As a result, the School District has no evidence that the maximum amount of revenue was generated through the auction. Furthermore, the School District has no way of determining which assets were brought over to the new complex and which assets were included in the auction.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-004 (Continued)

Reportable Condition (Continued)

We recommend the District take the necessary steps to verify all assets are included in the updated capital asset listing within the USAS system. The School District should then determine whether any of the assets were brought over from the retired buildings so as not to remove these items from the system. It could then be assumed that assets not brought over to the new complex were included in the auction and can then be deleted from the system. For future purchases, we recommend the School District require contractors and other vendors to submit invoices which provide information specific enough to allow the School District to accurately update the fixed asset listing. For future sales through auction, we recommend the School District require the auctioneer to provide a detailed listing of the items sold (tag number, description and proceeds received) so that these items may be accurately removed from the system. Finally, we recommend all future asset additions/deletions be posted to the subsystem when purchased or sold (rather than via annual update).

FINDING NUMBER 2002-005

Reportable Condition

2003 Op. Atty. Gen. No 2003-010, issued March 28, 2003, concluded that the positions of member of the board of education of a local school district and principal of vocational school that includes the territory of the local school district are incompatible. In this particular situation, the two positions are incompatible because of the existence of impermissible conflicts of interest related to such powers and duties granted and defined by Ohio Rev. Code §3311.217, §3313.48, §3313.90, §3317.17(A), §3317.21 and §3327.04. As a result, the board member with the conflict would be required to abstain from any issues which are determined to directly or indirectly affect the funding or operation of the Joint Vocational School. Since several matters coming before the Board of Education will inherently have such effects, the incompatibility may ultimately impede the board's ability to efficiently and effectively serve the best interests of the citizens of the School District. This is especially a concern where the Board must spend an inordinate amount of time determining whether a conflict exists requiring abstinence.

Keith Smith assumed his position on the Eastern Local School District Board of Education in January, 2002. Mr. Smith is also the Director of Vocational Education of the Pike County Joint Vocational School. The positions of Director of Vocational Education and Principal are both administrative positions that could, if held in conjunction with School District Board of Education membership, result in a possible conflict.

Accordingly, we recommend the School District review 2003 Op. Atty. Gen. No 2003-010 in its entirety and come to a resolution which would be in the best interest of the citizens of the School District regarding Mr. Smith's ability to serve as a member of the Board of Education as well as Director of Vocational Education of the Pike County Joint Vocational School.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.



**Auditor of State
Betty Montgomery**

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EASTERN LOCAL SCHOOL DISTRICT

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 1, 2003**