



**Auditor of State
Betty Montgomery**

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Eastern Local School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Local School District, Pike County, Ohio, as of June 30, 2003, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2004 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

April 21, 2004

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the Eastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$1,986,918.
- General revenues accounted for \$4,885,392 in revenue or 72% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$1,864,640 or 28% of total revenues of \$6,750,032.
- The School District had \$8,736,950 in expenses related to governmental activities; only \$1,864,640 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$4,885,392 were used to provide for a portion of the cost of these programs.
- The School District has two major funds: the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund's balance decreased \$336,050. The Classroom Facilities Capital Projects Fund's balance decreased by \$1,237,770.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

| | Governmental Activities | |
|-----------------------------------------|-------------------------|---------------------|
| | 2003 | Restated 2002 |
| Assets | | |
| Current and Other Assets | \$4,561,411 | \$6,227,880 |
| Capital Assets | 24,162,163 | 24,651,400 |
| Total Assets | <u>28,723,574</u> | <u>30,879,280</u> |
| Liabilities | | |
| Long-term Liabilities | 1,461,886 | 1,488,359 |
| Other Liabilities | 1,850,645 | 1,992,960 |
| Total Liabilities | <u>3,312,531</u> | <u>3,481,319</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 22,962,079 | 23,410,079 |
| Restricted | 2,437,797 | 3,339,006 |
| Unrestricted | 11,167 | 648,876 |
| Total Net Assets | <u>\$25,411,043</u> | <u>\$27,397,961</u> |

Total net assets of the District as a whole decreased \$1,986,918.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Eastern Local has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

| | Governmental Activities |
|----------------------------------------------|----------------------------|
| | 2003 |
| Revenues | |
| Program Revenues | |
| Charges for Services | \$107,622 |
| Operating Grants, Contributions and Interest | 1,745,518 |
| Capital Grants and Contributions | 11,500 |
| Total Program Revenues | 1,864,640 |
| General Revenues | |
| Property Taxes | 843,292 |
| Grants and Entitlements | 3,908,309 |
| Investment Earnings | 67,114 |
| Gain on Disposal of Capital Assets | 17,329 |
| Miscellaneous | 49,348 |
| Total General Revenues | 4,885,392 |
| Total Revenues | 6,750,032 |
| Program Expenses | |
| Instruction: | |
| Regular | 4,212,215 |
| Special | 521,956 |
| Vocational | 41,706 |
| Other | 70,545 |
| Support Services: | |
| Pupil | 216,366 |
| Instructional Staff | 228,642 |
| Board of Education | 28,391 |
| Administration | 812,551 |
| Fiscal | 184,421 |
| Operation and Maintenance of Plant | 1,227,415 |
| Pupil Transportation | 519,812 |
| Central | 2,514 |
| Operation of Non-Instructional Services | 286,894 |
| Extracurricular Activities | 315,550 |
| Interest and Fiscal Charges | 67,972 |
| Total Expenses | 8,736,950 |
| Decrease in Net Assets | (\$1,986,918) |

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

| | Total Cost of Services | Net Cost of Services |
|-----------------------------------------|---------------------------|-------------------------|
| | 2003 | 2003 |
| Program Expenses | | |
| Instruction: | | |
| Regular | \$4,212,215 | (\$3,713,296) |
| Special | 521,956 | 52,927 |
| Vocational | 41,706 | (41,685) |
| Other | 70,545 | (70,511) |
| Support Services: | | |
| Pupil | 216,366 | (112,650) |
| Instructional Staff | 228,642 | (170,097) |
| Board of Education | 28,391 | (28,383) |
| Administration | 812,551 | (785,800) |
| Fiscal | 184,421 | (173,714) |
| Operation and Maintenance of Plant | 1,227,415 | (1,224,942) |
| Pupil Transportation | 519,812 | (190,221) |
| Central | 2,514 | (2,514) |
| Operation of Non-Instructional Services | 286,894 | (54,348) |
| Extracurricular Activities | 315,550 | (299,267) |
| Interest and Fiscal Charges | 67,972 | (57,809) |
| Total | <u>\$8,736,950</u> | <u>(\$6,872,310)</u> |

THE SCHOOL DISTRICT FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,525,566 and expenditures of \$8,339,344. The General Fund had \$5,239,958 in revenues and \$5,564,492 in expenditures. The Classroom Facilities Capital Projects Fund had \$30,884 in revenues and \$1,268,654 in expenditures.

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the School District amended its General Fund budget, but not significantly.

Eastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

For the General Fund, the final budget basis revenue was \$5,189,157, below the original estimate of \$5,438,542. Of this \$249,385 difference, most was due to the drop in interest rates and state foundation monies received. For the General Fund, appropriations were \$5,707,336, below original estimates of \$5,887,870.

The School District's ending unobligated General Fund balance was \$957,983.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the School District had \$24,162,163 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, textbooks, and construction in progress. For additional information on capital assets, see Note 9 to the basic financial statements. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
 Capital Assets
 (Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2003 | 2002 |
| Land | \$120,410 | \$120,410 |
| Land Improvements | \$844,012 | \$889,634 |
| Buildings and Improvements | 21,674,994 | 22,400,335 |
| Furniture and Equipment | 909,232 | 994,503 |
| Vehicles | 126,048 | 176,716 |
| Library and Textbooks | 19,694 | 69,802 |
| Construction in Progress | 467,773 | 0 |
| Totals | \$24,162,163 | \$24,651,400 |

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

Debt

At June 30, 2003, the School District had general obligation bonds outstanding of \$1,195,000. The original issue date of these bonds was June 4, 1998, in the amount of \$1,423,000 for the purpose of building new school building facilities. The bonds were issued for a twenty-three year period with final maturity during fiscal year 2021. The bonds will be retired from the debt service fund. For additional information on debt, see note 13 to the basic financial statements.

ECONOMIC FACTORS

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

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Debbie Conkey, Treasurer at Eastern Local School District, 1171 Tile Mill Road, Beaver, Ohio 45613.

Eastern Local School District, Ohio

Statement of Net Assets

June 30, 2003

| | <u>Governmental Activities</u> |
|-------------------------------------------------|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$2,913,231 |
| Materials and Supplies Inventory | 7,439 |
| Intergovernmental Receivable | 206,115 |
| Prepaid Items | 8,813 |
| Property Taxes Receivable | 926,071 |
| Restricted Assets: | |
| Equity in Pooled Cash and Cash Equivalents | 310,076 |
| Cash and Cash Equivalents with Fiscal Agents | 189,666 |
| Nondepreciable Capital Assets | 588,183 |
| Depreciable Capital Assets, Net | <u>23,573,980</u> |
| <i>Total Assets</i> | <u>28,723,574</u> |
| Liabilities | |
| Accounts Payable | 39,820 |
| Accrued Wages and Benefits Payable | 498,966 |
| Contracts Payable | 171,050 |
| Retainage Payable | 199,660 |
| Accrued Interest Payable | 5,084 |
| Claims Payable | 9,536 |
| Deferred Revenue | 739,467 |
| Intergovernmental Payable | 187,062 |
| Long-Term Liabilities: | |
| Due Within One Year | 40,000 |
| Due In More Than One Year | <u>1,421,886</u> |
| <i>Total Liabilities</i> | <u>3,312,531</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 22,962,079 |
| Restricted for: | |
| Capital Projects | 1,495,168 |
| Debt Service | 175,988 |
| Budget Stabilization | 29,239 |
| Other Purposes | 737,402 |
| Unrestricted | <u>11,167</u> |
| <i>Total Net Assets</i> | <u><u>\$25,411,043</u></u> |

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2003

| | Program Revenues | | | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets |
|------------------------------------|--------------------|-------------------------|---------------------------------------|----------------------------------------|----------------------------------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | | |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$4,212,215 | \$987 | \$486,432 | \$11,500 | (\$3,713,296) |
| Special | 521,956 | 125 | 574,758 | 0 | 52,927 |
| Vocational | 41,706 | 21 | 0 | 0 | (41,685) |
| Other | 70,545 | 34 | 0 | 0 | (70,511) |
| Support Services: | | | | | |
| Pupil | 216,366 | 14,427 | 89,289 | 0 | (112,650) |
| Instructional Staff | 228,642 | 86 | 58,459 | 0 | (170,097) |
| Board of Education | 28,391 | 8 | 0 | 0 | (28,383) |
| Administration | 812,551 | 373 | 26,378 | 0 | (785,800) |
| Fiscal | 184,421 | 83 | 10,624 | 0 | (173,714) |
| Operation and Maintenance of Plant | 1,227,415 | 574 | 1,899 | 0 | (1,224,942) |
| Pupil Transportation | 519,812 | 227 | 329,364 | 0 | (190,221) |
| Central | 2,514 | 0 | 0 | 0 | (2,514) |
| Operation of Non-Instructional | | | | | |
| Services | 286,894 | 75,488 | 157,058 | | (54,348) |
| Extracurricular Activities | 315,550 | 15,189 | 1,094 | 0 | (299,267) |
| Interest and Fiscal Charges | 67,972 | 0 | 10,163 | 0 | (57,809) |
| Totals | \$8,736,950 | \$107,622 | \$1,745,518 | \$11,500 | (6,872,310) |
| General Revenues | | | | | |
| Property Taxes Levied for: | | | | | |
| | | | | | 692,091 |
| | | | | | 112,094 |
| | | | | | 39,107 |
| | | | | | 3,908,309 |
| | | | | | 67,114 |
| | | | | | 17,329 |
| | | | | | 49,348 |
| | | | | | <u>4,885,392</u> |
| | | | | | <i>Change in Net Assets</i> |
| | | | | | (1,986,918) |
| | | | | | <i>Net Assets Beginning of Year - See Note 3</i> |
| | | | | | <u>27,397,961</u> |
| | | | | | <i>Net Assets End of Year</i> |
| | | | | | <u>\$25,411,043</u> |

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2003

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|----------------------------------------------|--------------------|-------------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$732,118 | \$1,454,732 | \$726,381 | \$2,913,231 |
| Receivables: | | | | |
| Property Taxes | 759,972 | 0 | 166,099 | 926,071 |
| Interfund | 2,353 | 0 | 0 | 2,353 |
| Intergovernmental | 0 | 0 | 206,115 | 206,115 |
| Prepaid Items | 8,813 | 0 | 0 | 8,813 |
| Materials and Supplies Inventory | 3,631 | 0 | 3,808 | 7,439 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents | 310,076 | 0 | 0 | 310,076 |
| Cash and Cash Equivalents with Fiscal Agents | 0 | 189,666 | 0 | 189,666 |
| <i>Total Assets</i> | <u>\$1,816,963</u> | <u>\$1,644,398</u> | <u>\$1,102,403</u> | <u>\$4,563,764</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$37,420 | \$0 | \$2,400 | \$39,820 |
| Accrued Wages and Benefits Payable | 384,495 | 0 | 114,471 | 498,966 |
| Contracts Payable | 0 | 171,050 | 0 | 171,050 |
| Interfund Payable | 0 | 0 | 2,353 | 2,353 |
| Claims Payable | 9,536 | 0 | 0 | 9,536 |
| Intergovernmental Payable | 105,994 | 0 | 19,607 | 125,601 |
| Retainage Payable | 0 | 199,660 | 0 | 199,660 |
| Deferred Revenue | 692,143 | 0 | 357,324 | 1,049,467 |
| <i>Total Liabilities</i> | <u>1,229,588</u> | <u>370,710</u> | <u>496,155</u> | <u>2,096,453</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 23,086 | 599,221 | 29,960 | 652,267 |
| Reserved for Property Taxes | 67,829 | 0 | 14,890 | 82,719 |
| Reserved for Budget Stabilization | 29,239 | 0 | 0 | 29,239 |
| Reserved for Textbooks and Materials | 188,431 | 0 | 0 | 188,431 |
| Reserved for Bus Purchases | 107,927 | 0 | 0 | 107,927 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 170,863 | 0 | 0 | 170,863 |
| Special Revenue Funds | 0 | 0 | 171,958 | 171,958 |
| Debt Service Funds | 0 | 0 | 169,160 | 169,160 |
| Capital Projects Funds | 0 | 674,467 | 220,280 | 894,747 |
| <i>Total Fund Balances</i> | <u>587,375</u> | <u>1,273,688</u> | <u>606,248</u> | <u>2,467,311</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$1,816,963</u> | <u>\$1,644,398</u> | <u>\$1,102,403</u> | <u>\$4,563,764</u> |

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-----------------------------|
| Total Governmental Fund Balances | | \$ 2,467,311 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 24,162,163 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | |
| Taxes | 103,885 | |
| Intergovernmental | <u>206,115</u> | |
| Total | | 310,000 |
| Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds | | (61,461) |
| Long-Term Liabilities, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds. | | |
| Accrued Interest Payable | (5,084) | |
| Compensated Absences | (266,886) | |
| School Improvement General Obligation Bonds | <u>(1,195,000)</u> | |
| Total | | <u>(1,466,970)</u> |
| Net Assets of Governmental Activities | | <u><u>\$ 25,411,043</u></u> |

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------------------------------|------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$681,990 | \$0 | \$148,983 | \$830,973 |
| Intergovernmental | 4,473,959 | 0 | 994,557 | 5,468,516 |
| Investment Earnings | 36,370 | 30,744 | 0 | 67,114 |
| Charges for Services | 0 | 0 | 75,488 | 75,488 |
| Tuition and Fees | 2,609 | 0 | 704 | 3,313 |
| Extracurricular Activities | 500 | 0 | 28,321 | 28,821 |
| Gifts and Donations | 147 | 0 | 1,846 | 1,993 |
| Miscellaneous | 44,383 | 140 | 4,825 | 49,348 |
| <i>Total Revenues</i> | <u>5,239,958</u> | <u>30,884</u> | <u>1,254,724</u> | <u>6,525,566</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,105,020 | 0 | 428,346 | 2,533,366 |
| Special | 249,249 | 0 | 258,772 | 508,021 |
| Vocational | 42,026 | 0 | 0 | 42,026 |
| Other | 70,545 | 0 | 0 | 70,545 |
| Support Services: | | | | |
| Pupil | 131,929 | 0 | 85,171 | 217,100 |
| Instructional Staff | 184,978 | 0 | 63,671 | 248,649 |
| Board of Education | 28,851 | 0 | 0 | 28,851 |
| Administration | 786,260 | 0 | 27,398 | 813,658 |
| Fiscal and Business | 174,513 | 0 | 7,465 | 181,978 |
| Operation and Maintenance of Plant | 1,237,300 | 0 | 7,055 | 1,244,355 |
| Pupil Transportation | 482,127 | 0 | 2,140 | 484,267 |
| Central | 2,514 | 0 | 0 | 2,514 |
| Operation of Non-Instructional Services | 0 | 0 | 276,922 | 276,922 |
| Extracurricular Activities | 69,180 | 0 | 19,630 | 88,810 |
| Capital Outlay | 0 | 1,268,654 | 226,740 | 1,495,394 |
| Debt Service: | | | | |
| Principal | 0 | 0 | 40,000 | 40,000 |
| Interest and Fiscal Charges | 0 | 0 | 62,888 | 62,888 |
| <i>Total Expenditures</i> | <u>5,564,492</u> | <u>1,268,654</u> | <u>1,506,198</u> | <u>8,339,344</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(324,534)</u> | <u>(1,237,770)</u> | <u>(251,474)</u> | <u>(1,813,778)</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | 17,817 | 0 | 0 | 17,817 |
| Operating Transfers In | 0 | 0 | 29,333 | 29,333 |
| Operating Transfers Out | (29,333) | 0 | 0 | (29,333) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(11,516)</u> | <u>0</u> | <u>29,333</u> | <u>17,817</u> |
| <i>Net Change in Fund Balance</i> | <u>(336,050)</u> | <u>(1,237,770)</u> | <u>(222,141)</u> | <u>(1,795,961)</u> |
| <i>Fund Balances Beginning of Year - Restated (See Note 3)</i> | <u>923,425</u> | <u>2,511,458</u> | <u>828,389</u> | <u>4,263,272</u> |
| <i>Fund Balances End of Year</i> | <u>\$587,375</u> | <u>\$1,273,688</u> | <u>\$606,248</u> | <u>\$2,467,311</u> |

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds \$ (1,795,961)

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

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

| | | |
|---------------------------|-----------|-----------|
| Capital Asset Additions | 472,768 | |
| Current Year Depreciation | (961,517) | |
| Total | (488,749) | (488,749) |

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

| | | |
|--------------------------------------|----------|-------|
| Proceeds from Sale of Capital Assets | (17,817) | |
| Gain on Disposal of Capital Assets | 17,329 | |
| Total | (488) | (488) |

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

| | | |
|-------------------|---------|---------|
| Taxes | 12,320 | |
| Intergovernmental | 194,818 | |
| Total | 207,138 | 207,138 |

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

40,000

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

| | | |
|---------------------------------------|----------|--|
| Increase in Compensated Absences | (13,527) | |
| Increase in Interest Payable | (5,084) | |
| Decrease in Intergovernmental Payable | 69,753 | |

| | | |
|-------|--|--------|
| Total | | 51,142 |
|-------|--|--------|

Net Change in Net Assets of Governmental Activities \$ (1,986,918)

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003*

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive/(Negative) |
|-----------------------------------------------------|-------------------------|------------------|------------------|------------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Taxes | \$772,037 | \$674,786 | \$674,786 | \$0 |
| Intergovernmental | 4,593,769 | 4,474,064 | 4,473,959 | (105) |
| Investment Earnings | 60,703 | 36,370 | 36,370 | 0 |
| Tuition and Fees | 9,503 | 2,608 | 2,609 | 1 |
| Extracurricular Activities | 0 | 0 | 500 | 500 |
| Gifts and Donations | 2,300 | 0 | 147 | 147 |
| Miscellaneous | 230 | 1,329 | 682 | (647) |
| <i>Total Revenues</i> | <u>5,438,542</u> | <u>5,189,157</u> | <u>5,189,053</u> | <u>(104)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,411,840 | 2,152,870 | 2,152,873 | (3) |
| Special | 417,139 | 249,633 | 249,636 | (3) |
| Vocational | 82,229 | 43,265 | 43,266 | (1) |
| Other | 30,303 | 70,738 | 70,738 | 0 |
| Support Services: | | | | |
| Pupil | 240,267 | 149,028 | 149,028 | 0 |
| Instructional Staff | 262,850 | 188,857 | 188,856 | 1 |
| Board of Education | 28,596 | 19,135 | 19,135 | 0 |
| Administration | 925,348 | 810,661 | 810,660 | 1 |
| Fiscal | 257,834 | 174,178 | 174,178 | 0 |
| Operation and Maintenance of Plant | 324,023 | 1,272,826 | 1,272,830 | (4) |
| Pupil Transportation | 821,546 | 503,001 | 503,003 | (2) |
| Central | 7,219 | 4,037 | 4,037 | 0 |
| Extracurricular Activities | 78,676 | 69,107 | 69,105 | 2 |
| <i>Total Expenditures</i> | <u>5,887,870</u> | <u>5,707,336</u> | <u>5,707,345</u> | <u>(9)</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(449,328)</u> | <u>(518,179)</u> | <u>(518,292)</u> | <u>(113)</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | 51,501 | 17,817 | 17,817 | 0 |
| Refund of Prior Year Expenditures | 0 | 44,275 | 44,275 | 0 |
| Advances Out | 0 | (2,353) | (2,353) | 0 |
| Transfers Out | 0 | (29,333) | (29,333) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>51,501</u> | <u>30,406</u> | <u>30,406</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | <u>(397,827)</u> | <u>(487,773)</u> | <u>(487,886)</u> | <u>(113)</u> |
| <i>Fund Balance at Beginning of Year</i> | 1,304,136 | 1,304,136 | 1,304,136 | 0 |
| Prior Year Encumbrances Appropriated | 141,733 | 141,733 | 141,733 | 0 |
| <i>Fund Balance at End of Year</i> | <u>\$1,048,042</u> | <u>\$958,096</u> | <u>\$957,983</u> | <u>(\$113)</u> |

See accompanying notes to the basic financial statements

Eastern Local School District, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

| | |
|--------------------------------------------|------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$26,369</u> |
| Liabilities | |
| Undistributed Monies | <u>26,369</u> |
| Total Liabilities | <u><u>\$26,369</u></u> |

See accompanying notes to the basic financial statements

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 39 non-certificated employees, 61 certificated full-time teaching personnel, and 6 administrators who provide services to 838 students and other community members. The School District currently operates three instructional buildings.

Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

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

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

The School District participates in four organizations, two of which are defined as jointly governed organizations, and two as group purchasing pools. These organizations are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, the Ohio School Boards Association Workers Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 14 and 16 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

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

Government-wide Financial Statements:

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

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

B. Fund Accounting

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

Governmental Funds

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

General Fund

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

Classroom Facilities Fund

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

C. Measurement Focus

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

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

E. Cash and Cash Equivalents

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

During fiscal year 2003, the School District had no investments.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2003 amounted to \$36,370 and \$30,744 for the Classroom Facilities Fund.

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

F. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for budget stabilization, and amounts required by statute to be set-aside by the School District for the purchase of textbooks and buses. See Note 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 and Cash Equivalents with Fiscal Agents in the Classroom Facilities Capital Projects Fund.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption and donated commodities held for resale.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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.

I. Capital Assets and Depreciation

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

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

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Activity

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

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities, that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds are recognized as an expenditure and liability in the governmental fund financial statements when due.

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, property taxes, textbooks and instructional materials, bus purchases and budget stabilization.

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

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.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

For the fiscal year 2003, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.” GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information by major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The implementation of the Statements requires certain adjustments be recorded to the June 30, 2002, fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

| | <u>General</u> | <u>Classroom Facilities</u> | <u>Non-Major</u> | <u>Total</u> |
|--------------------------------------------------|----------------|---------------------------------|------------------|---------------------|
| Fund Balances, June 30, 2002 | \$884,871 | \$2,322,933 | \$1,026,615 | \$4,234,419 |
| Fund Reclassification Restatement | 0 | 0 | 188,597 | 188,597 |
| GASB Interpretation 6 Restatement Amount | 38,554 | 188,525 | (386,823) | (159,744) |
| Restated Fund Balances, June 30, 2002 | \$923,425 | \$2,511,458 | \$828,389 | \$4,263,272 |
| Adjustments necessary to comply with GASB 34 | | | | <u>23,134,689</u> |
| Governmental Activities Net Assets June 30, 2002 | | | | <u>\$27,397,961</u> |

| | <u>Enterprise Fund</u> |
|----------------------------|------------------------|
| Fund Equity, June 30, 2002 | \$188,597 |
| Reclassification of Fund | (188,597) |
| Restated June 30, 2002 | <u>\$0</u> |

The Food Service Fund was reclassified from an Enterprise Fund to a Special Revenue Fund effective July 1, 2002.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability - Fund Equity Deficits

At June 30, 2003, the Food Service, Summer Intervention, Title I, and Class Size Reduction Special Revenue Funds had fund balance deficits of \$19,038, \$142, \$29,438, and \$9,357, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

As of May 31, 2003, the following funds had appropriations in excess of estimated resources:

| Fund | Original Appropriations | Cert. Of Estimated Resources | Variance |
|-------------------------------------|----------------------------|---------------------------------|----------|
| School Improvement Models | \$455 | \$0 | \$455 |
| District Managed Activity | 44,262 | 38,890 | 5,372 |
| Ohio Reads | 29,985 | 0 | 29,985 |
| Summer Intervention | 15,226 | 1,146 | 14,080 |
| Eisenhower Professional Development | 10,016 | 8,455 | 1,561 |
| Title VI-B | 132,928 | 20,023 | 112,905 |
| Title I | 505,714 | 34,545 | 471,169 |
| Title VI | 11,040 | 1,416 | 9,624 |
| Drug Free Schools | 15,068 | 1,979 | 13,089 |
| Goals 2000 | 10,978 | 5,978 | 5,000 |
| Improving Teacher Quality | 85,774 | 0 | 85,774 |
| Miscellaneous Federal Grants | 85,245 | 9,531 | 75,714 |

As of May 31, 2003, actual expenditures plus encumbrances exceeded appropriations at the fund level for the following funds:

| Fund | Total Appropriations | Expenditures Plus Encumbrances | Variance |
|----------------------------------|-------------------------|-----------------------------------|-----------|
| Classroom Facilities Maintenance | \$5,375 | \$7,660 | (\$2,285) |
| Management Information Systems | 5,087 | 10,000 | (4,913) |
| Data Communication | 0 | 2,883 | (2,883) |

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis); and
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

| | <u>General</u> |
|----------------------|--------------------|
| GAAP Basis | (\$336,050) |
| Revenue Accruals | (6,630) |
| Expenditure Accruals | (84,700) |
| Encumbrances | <u>(60,506)</u> |
| Budget Basis | <u>(\$487,886)</u> |

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - 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 (STAROhio);
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 \$3,439,342 and the bank balance was \$3,495,420. Of the bank balance, \$248,958 was covered by federal deposit insurance and \$3,246,462 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

At June 30, 2003, the School District had no outstanding investments.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) are for calendar 2003 taxes.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7 - PROPERTY TAXES (continued)

2003 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date.

Assessed values are established by State law at thirty-five percent of appraised market value. First half 2003 real property taxes are collected in and intended to finance fiscal year 2004.

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. 2003 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003 and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. 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 2003 taxes were collected are:

| | 2002 Second- Half Collections | | 2003 First- Half Collections | |
|---------------------------------------------------|----------------------------------|---------|---------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$22,381,670 | 81.49% | \$29,547,160 | 84.19% |
| Public Utility | 3,974,730 | 14.47% | 4,331,110 | 12.34% |
| Tangible Personal Property | 1,107,690 | 4.04% | 1,216,990 | 3.47% |
| Total Assessed Value | \$27,464,090 | 100.00% | \$35,095,260 | 100.00% |
| Tax rate per \$1,000 of assessed valuation | \$33.51 | | \$33.51 | |

The School District receives property taxes from Pike, Scioto and Jackson Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 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, 2003 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, 2003, was \$67,829 in the General Fund, \$10,948 in the Classroom Facilities Maintenance Special Revenue Fund, and \$3,942 in the Debt Service Fund.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|-----------------------------|-------------------------|
| Special Revenue Funds: | |
| Title VI-B | \$24,937 |
| Title II-D | 17,435 |
| Title I | 120,839 |
| Drug Free Grant | 4,646 |
| Title II-A | <u>38,258</u> |
| Total Special Revenue Funds | <u>206,115</u> |
| Total All Funds | <u><u>\$206,115</u></u> |

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2003, was as follows:

| | Ending Balance 6/30/2002 | Additions | Deletions | Ending Balance 6/30/2003 |
|----------------------------------------------------|--------------------------------|--------------------|----------------|--------------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$120,410 | \$0 | \$0 | \$120,410 |
| Construction in Progress | 0 | 467,773 | 0 | 467,773 |
| Total Capital Assets, Not Being Depreciated | 120,410 | 467,773 | 0 | 588,183 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 912,445 | 0 | 0 | 912,445 |
| Buildings and Improvements | 22,768,782 | 0 | 0 | 22,768,782 |
| Furniture and Equipment | 1,226,735 | 4,995 | (4,880) | 1,226,850 |
| Vehicles | 1,269,361 | 0 | 0 | 1,269,361 |
| Textbooks | 522,523 | 0 | 0 | 522,523 |
| Total Capital Assets Being Depreciated | 26,699,846 | 4,995 | (4,880) | 26,699,961 |
| Less: Accumulated Depreciation: | | | | |
| Land Improvements | (22,811) | (45,622) | 0 | (68,433) |
| Buildings and Improvements | (368,447) | (725,341) | 0 | (1,093,788) |
| Furniture and Equipment | (232,232) | (89,778) | 4,392 | (317,618) |
| Vehicles | (1,092,645) | (50,668) | 0 | (1,143,313) |
| Textbooks | (452,721) | (50,108) | 0 | (502,829) |
| Total Accumulated Depreciation | (2,168,856) | (961,517) | 4,392 | (3,125,981) |
| Total Capital Assets Being Depreciated, Net | 24,530,990 | (956,522) | (488) | 23,573,980 |
| Governmental Capital Assets, Net | \$24,651,400 | (\$488,749) | (\$488) | \$24,162,163 |

The Buildings and Improvements ending balance at June 30, 2002 included certain assets (at the entire project cost) which were substantially completed and in service. A portion of these costs had not been recorded as capital outlay until fiscal year 2003 since the liability for these expenditures was incurred during fiscal year 2003; therefore, there are differences between the amount capitalized during fiscal year 2003 and the amount reported as capital outlay during fiscal year 2003 in the Governmental Funds Financial Statements.

Depreciation expense was charged to government functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$894,964 |
| Special | 313 |
| Vocational | 173 |
| Support Services: | |
| Pupil | 267 |
| Administration | 2,406 |
| Operation and Maintenance of Plant | 513 |
| Pupil Transportation | 50,668 |
| Non-Instructional Services | 12,213 |
| Total Depreciation Expense | \$961,517 |

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Motorists Mutual Insurance Company for property and fleet insurance, and professional liability insurance coverage. Coverages provided are as follows:

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

During fiscal year 2003, the School District participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverages, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 14)

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

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

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

For fiscal year 2003, 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" ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRPs selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - RISK MANAGEMENT (continued)

Dental insurance is offered to employees through a self-insurance fund accounted for within the General Fund. Coresource is the School Districts third party administrator who informs the School District of claim payments needed each week. Coresource provides an actuarial study each year and advises the School District as to any change needed in premium payments to the internal service fund. The claims liability of \$9,536 reported in the General Fund at June 30, 2003 is based on an estimate provided by Coresource, and the requirements of *GASB Statement No. 30 Risk Financing Omnibus*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

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

| | Balance at Beginning of Year | Current Year Claims | Claim Payments | Balance at End of Year |
|------|---------------------------------|------------------------|----------------|---------------------------|
| 2001 | \$4,053 | \$47,202 | \$47,025 | \$4,230 |
| 2002 | 4,230 | 50,451 | 51,751 | 2,930 |
| 2003 | 2,930 | 39,847 | 33,241 | 9,536 |

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Plan members are required to contribute 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 2003, 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 Districts required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$71,364, \$51,384, and \$52,572, respectively; 31 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$49,557 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefits (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 – DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYEMENT BENEFITS
(continued)

Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$413,361, \$292,541, and \$342,894, respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$65,104 represents the unpaid contribution for fiscal year 2003 and is recorded as a liability within the respective funds.

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$30,578 for fiscal year 2003. 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 employers 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the members pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$100,894. 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 \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School Districts long-term obligations during fiscal year 2003 were as follows:

| | Obligations Outstanding 6/30/02 | Additions | Deductions | Obligations Outstanding 6/30/03 | Due in One Year |
|----------------------------------------------------------------------|---------------------------------------|-----------------|-----------------|---------------------------------------|--------------------|
| 1998 School Improvement General Obligation Bonds – 4.0% - 5.0% | \$1,235,000 | \$0 | \$40,000 | \$1,195,000 | \$40,000 |
| Compensated Absences | <u>253,359</u> | <u>27,131</u> | <u>13,604</u> | <u>266,886</u> | <u>0</u> |
| Total General Long-Term Obligations | <u>\$1,488,359</u> | <u>\$27,131</u> | <u>\$53,604</u> | <u>\$1,461,886</u> | <u>\$40,000</u> |

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation debt at June 30, 2003, are as follows:

| Fiscal year Ending June 30, | Principal | Interest | Total |
|--------------------------------|--------------------|------------------|--------------------|
| 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 | 50,000 | 52,572 | 102,572 |
| 2009-2013 | 295,000 | 219,263 | 514,263 |
| 2014-2018 | 385,000 | 122,600 | 507,600 |
| Thereafter | 285,000 | 21,875 | 306,875 |
| Total | <u>\$1,195,000</u> | <u>\$648,767</u> | <u>\$1,843,767</u> |

The School District's overall legal debt margin was \$1,904,734 with an unvoted debt margin of \$35,095 at June 30, 2003.

NOTE 14 - GROUP PURCHASING POOL

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

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

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 15 - CONTRACTUAL COMMITMENTS

As of June 30, 2003, 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:

| <u>Contractor</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Balance At 6/30/03</u> |
|------------------------------------|----------------------------|----------------------------|-------------------------------|
| Ingle Barr | \$1,214,990 | \$805,378 | \$409,612 |
| Wasserstrom | 293,042 | 282,631 | 10,411 |
| Farnham Equipment | 120,530 | 96,410 | 24,120 |
| School Specialty | 108,932 | 108,245 | 687 |
| West End Electric | 2,288,635 | 2,260,936 | 27,699 |
| Stockmeister Enterprises | 8,932,479 | 8,743,579 | 188,900 |
| Gilbane | 1,157,081 | 1,116,784 | 40,297 |
| Mechanical Construction (HVAC) | 2,875,639 | 2,861,418 | 14,221 |
| Mechanical Construction (Plumbing) | 782,027 | 770,916 | 11,111 |
| Tanner Stone & Company | 1,345,858 | 1,326,385 | 19,473 |
| Total | \$19,119,213 | \$18,372,682 | \$746,531 |

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 \$39,461 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career Technology Center, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

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

NOTE 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.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES (Continued)

For fiscal year ended June 30, 2003, the School District is no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

| | Textbooks | Capital Acquisition | Budget Stablization |
|-----------------------------------------------|------------------|------------------------|------------------------|
| Set-aside Reserve Balance as of June 30, 2002 | \$149,360 | \$0 | \$29,239 |
| Current year set-aside requirement | 102,234 | 102,234 | 0 |
| Current year offsets and prior year carryover | 0 | (1,441,061) | 0 |
| Qualifying disbursements | (63,163) | (125,023) | 0 |
| Set-aside Reserve Balance as of June 30, 2003 | <u>\$188,431</u> | <u>(\$1,463,850)</u> | <u>\$29,239</u> |

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

NOTE 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, 2003.

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 on its financial operations.

Eastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 20 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2003, were as follows:

| Fund | Transfer From | Transfer To |
|---------------------|---------------|-------------|
| Major Fund: | | |
| General | \$29,333 | \$0 |
| Non Major Funds: | | |
| Food Service | 0 | 25,992 |
| Summer Intervention | 0 | 3,341 |
| Total | \$29,333 | \$29,333 |

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

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2004 fiscal year:

| Interfund Loans | Receivable | Payable |
|--------------------------------------|-------------------|----------------|
| General Fund | \$ 2,353 | \$ - |
| Nonmajor Special Revenue Funds | | |
| Miscellaneous Federal Grant | | 549 |
| Continuous Reform Grant | - | 1,804 |
| Total Nonmajor Special Revenue Funds | - | 2,353 |
| Total Interfund Receivables/Payables | \$ 2,353 | \$ 2,353 |

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

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**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title | Federal CFDA Number | Pass Through Entity Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|-------------------------------------------------------------------------|---------------------------|----------------------------------|----------------------------|---------------------|-----------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation | 10.550 | N/A | \$ | \$ 33,850 | \$ | \$ 36,770 |
| School Breakfast Program | 10.553 | 05-PU-02 05-PU-03 | 9,810 22,498 | | 9,810 22,498 | |
| Total School Breakfast Program | | | 32,308 | 0 | 32,308 | 0 |
| National School Lunch Program | 10.555 | LL-P4-02 LL-P4-03 | 27,677 85,751 | | 27,677 85,751 | |
| Total National School Lunch Program | | | 113,428 | 0 | 113,428 | 0 |
| Total Nutrition Cluster | | | 145,736 | 33,850 | 145,736 | 36,770 |
| Total United States Department of Agriculture | | | 145,736 | 33,850 | 145,736 | 36,770 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Title I Grants to Local Educational Agencies | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1-S1-01 C1-S1-02 C1-S1-03 | 6,625 20,761 245,331 | | 16,822 45,109 224,588 | |
| Total Title I Grants to Local Educational Agencies | | | 272,717 | 0 | 286,519 | 0 |
| Special Education - Grants to States | 84.027 | 6B-SF-02-P 6B-SF-03-P | 83,281 | | 13,526 75,233 | |
| Total Special Education - Grants to States | | | 83,281 | 0 | 88,759 | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | DR-S1-03 | 1,459 | | 359 | |
| Goals 2000 - State and Local Education Systemic Improvement Grants | 84.276 | G2-S1-01 G2-S2-01 G2-S5-02 | 7,000 | | 1,889 186 4,892 | |
| Total Goals 2000 - State and Local Education Systemic Improvement Grant | | | 7,000 | 0 | 6,967 | 0 |
| Eisenhower Professional Development State Grants | 84.281 | MS-S1-01 MS-S1-02 | (6,764) | | 631 1,070 | |
| Total Eisenhower Professional Development State Grants | | | (6,764) | 0 | 1,701 | 0 |
| Innovative Education Program Strategies | 84.298 | C2-S1-02 C2-S1-03 | (1,416) 6,158 | | 6,158 | |
| Total Innovative Education Program Strategies | | | 4,742 | 0 | 6,158 | 0 |
| Education Technology State Grants | 84.318 | TJ-S1-03 | 1,771 | | | |
| Comprehensive School Reform Demonstration | 84.332 | RF-S1-02 | 49,351 | | 50,155 | |
| Class Size Reduction | 84.340 | CR-S1-02 | (537) | | 8,647 | |
| Assistive Technology Grant | 84.352A | AT-S2-02 | 1,360 | | 1,360 | |
| Rural Education | 84.358 | RU-S1-03 | 3,253 | | 3,802 | |
| Improving Teacher Quality State Grants | 84.367 | TR-S1-03 | 54,817 | | 47,504 | |
| Total United States Department of Education | | | 472,450 | 0 | 501,931 | 0 |
| UNITED STATES DEPARTMENT OF LABOR | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| School to Work | | | | | | |
| School to Work | 17.249 | N/A | | | 335 | |
| Total United States Department of Labor | | | 0 | 0 | 335 | 0 |
| Total Federal Awards Receipts and Expenditures | | | \$618,186 | \$33,850 | \$648,002 | \$36,770 |

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

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – RECLASSIFICATION OF FEDERAL FUNDS

Title II, formerly known as the Eisenhower Professional Development grant, and Title VI-R, formerly known as the Class Size Reduction grant, have been combined with Title II-A, the Improving Teacher Quality grant. The \$6,764 remaining in the Title II grant and \$537 in the Title VI-R grant were transferred to the Title II-A grant. The transfers are presented as a reduction of Title II and Title VI-R receipts, resulting in negative receipts of (\$6,764) and (\$537), respectively. The following table summarizes the transfers:

| Program Title | Federal CFDA Number | Transfer In | Transfer Out |
|------------------------------------------------|---------------------|-------------|--------------|
| Eisenhower Professional Development (Title II) | 84.281 | | \$6,764 |
| Class Size Reduction (Title VI-R) | 84.340 | | 537 |
| Improving Teacher Quality (Title II-A) | 84.367 | \$7,301 | |

NOTE D – NEGATIVE RECEIPTS

Innovative Education Program Strategies, CFDA #84.298, funds in the amount of \$1,416 were carried over from 2002 to the next program year, resulting in a negative receipt of (\$1,416).



**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
1170 Tile Mill Road
Beaver, Ohio 45613

To the Board of Education:

We have audited the basic financial statements of Eastern Local School District, Pike County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 21, 2004, wherein we noted the School District has adopted Governmental Accounting Statement No. 34. 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 basic 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*, which are described in the accompanying Schedule of Findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated April 21, 2004.

Internal Control Over Financial Reporting

In planning and performing the 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 basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving 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 21, 2004.

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Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Eastern Local School District
Pike County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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.

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 21, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Eastern Local School District, Pike County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The School District's major federal programs are 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 each of its major federal programs 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 each of its major federal programs for the year ended June 30, 2003.

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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Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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.

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 21, 2004

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Title I Grants to Local Educational Agencies – CFDA #84.010 and Nutrition Cluster – CFDA #10.550, #10,553, and #10,555 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Noncompliance Citation

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

As of May 31, 2003, actual expenditures plus encumbrances exceeded appropriations at the fund level for the following funds:

| <u>Fund</u> | <u>Total Appropriations</u> | <u>Expenditures plus Encumbrances</u> | <u>Variance</u> | <u>Percentage</u> |
|----------------------|---------------------------------|-----------------------------------------------|-----------------|-------------------|
| Classroom Facilities | | | | |
| Maintenance | \$5,375 | \$7,660 | \$2,285 | 43% |
| Management | | | | |
| Information | | | | |
| Systems | 5,087 | 10,000 | 4,913 | 97% |
| Data Communication | 0 | 2,883 | 2,883 | Indefinite |

Also, as of May 31, 2003, 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 Encumbrances</u> | <u>Variance</u> | <u>Percentage</u> |
|------------------|---------------------------------|-----------------------------------------------|-----------------|-------------------|
| 001-1100-400 | \$7,626 | \$63,909 | (\$56,283) | 738% |
| 001-1100-800 | 0 | 119 | (119) | Indefinite |
| 001-1200-400 | 0 | 88 | (88) | Indefinite |
| 001-1200-500 | 0 | 2,191 | (2,191) | Indefinite |
| 001-1900-400 | 21,867 | 58,669 | (36,802) | 168% |
| 001-2400-400 | 76,823 | 151,167 | (74,344) | 97% |
| 001-2400-500 | 2,237 | 3,473 | (1,236) | 55% |
| 001-2500-400 | 4,906 | 5,988 | (1,082) | 22% |
| 001-2700-400 | 167,983 | 630,223 | (462,240) | 275% |
| 001-2700-700 | 0 | 853 | (853) | Indefinite |
| 001-2800-800 | 14,080 | 16,320 | (2,240) | 16% |
| 001-4500-100 | 42,770 | 48,749 | (5,979) | 14% |
| 001-4500-200 | 1,725 | 5,291 | (3,566) | 207% |
| 001-4600-100 | 6,185 | 6,809 | (624) | 10% |

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-001 (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> | <u>Percentage</u> |
|------------------|---------------------------------|-----------------------------------------------|-----------------|-------------------|
| 001-4600-200 | 882 | 932 | (50) | 6% |
| 001-2100-200 | 0 | 95 | (95) | Indefinite |
| 001-2100-400 | 4,406 | 7,820 | (3,414) | 77% |
| 001-1100-600 | 1,000 | 7,215 | (6,215) | 622% |
| 001-2400-500 | 15,000 | 15,377 | (377) | 3% |
| 001-2700-500 | 15,275 | 22,524 | (7,249) | 47% |
| 001-2800-400 | 5,000 | 9,873 | (4,873) | 97% |
| 001-2700-400 | 50,000 | 236,628 | (186,628) | 373% |
| 001-1100-500 | 36,296 | 38,286 | (1,990) | 5% |
| 002-2400-800 | 750 | 803 | (53) | 7% |
| 002-2500-800 | 4,100 | 4,276 | (176) | 4% |
| 006-3100-400 | 458 | 1,320 | (862) | 188% |
| 006-3100-600 | 0 | 2,192 | (2,192) | Indefinite |
| 010-5500-400 | 12,736 | 25,222 | (12,486) | 98% |
| 010-5500-600 | 1,751,893 | 1,863,763 | (111,870) | 6% |
| 010-5900-400 | 8,595 | 282,092 | (273,497) | 3,182% |
| 018-2100-800 | 0 | 199 | (199) | Indefinite |
| 018-2100-500 | 1,690 | 2,659 | (969) | 57% |
| 018-2100-800 | 0 | 800 | (800) | Indefinite |
| 018-2100-500 | 0 | 3,680 | (3,680) | Indefinite |
| 034-2400-800 | 0 | 94 | (94) | Indefinite |
| 034-2500-800 | 0 | 511 | (511) | Indefinite |
| 034-2700-400 | 5,375 | 7,055 | (1,680) | 31% |
| 200-4100-800 | 44 | 387 | (343) | 787% |
| 200-4600-800 | 2,401 | 5,128 | (2,727) | 114% |

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-001 (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> | <u>Percentage</u> |
|------------------|---------------------------------|-----------------------------------------------|-----------------|-------------------|
| 200-4600-800 | 0 | 1,962 | (1,962) | Indefinite |
| 300-4500-800 | 175 | 480 | (305) | 174% |
| 432-2400-400 | 0 | 10,000 | (10,000) | Indefinite |
| 447-2100-400 | 0 | 136 | (136) | Indefinite |
| 459-1100-400 | 6,750 | 7,200 | (450) | 7% |
| 460-2200-100 | 324 | 1,539 | (1,215) | 375% |
| 514-1100-400 | 0 | 781 | (781) | Indefinite |
| 572-1200-100 | 10,197 | 16,822 | (6,625) | 65% |
| 572-2400-200 | 0 | 305 | (305) | Indefinite |
| 572-1200-400 | 600 | 669 | (69) | 11% |
| 573-7200-900 | 0 | 1,416 | (1,416) | Indefinite |
| 589-2200-500 | 0 | 475 | (475) | Indefinite |
| 589-1100-400 | 0 | 750 | (750) | Indefinite |
| 589-2200-500 | 3,438 | 3,479 | (41) | 1% |

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 fund level and 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, 2003
(Continued)**

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

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code §5705.39 states that total appropriations from each fund shall not exceed the total estimated resources.

As of May 31, 2003, the following funds had appropriations which exceeded estimated resources:

| <u>Fund</u> | <u>Appropriations</u> | <u>Estimated Resources</u> | <u>Variance</u> | <u>Percentage</u> |
|--------------------------------------|-----------------------|----------------------------|-----------------|-------------------|
| School Improvement Models | \$455 | \$0 | \$455 | Indefinite |
| District Managed Activity | 44,262 | 38,890 | 5,373 | 14% |
| Ohio Reads | 29,985 | 0 | 29,985 | Indefinite |
| Summer Intervention | 15,226 | 1,146 | 14,080 | 1,228% |
| Eishenhower Professional Development | 10,016 | 8,455 | 1,561 | 18% |
| Title VI-B | 132,928 | 20,023 | 112,905 | 5,639% |
| Title I | 505,714 | 34,545 | 471,169 | 1,364% |
| Title VI | 11,040 | 1,416 | 9,624 | 680% |
| Drug Free Schools Grant | 15,068 | 1,979 | 13,089 | 661% |
| Goals 2000 | 10,978 | 5,978 | 5,000 | 84% |
| Improving Teacher Quality | 85,774 | 0 | 85,774 | Indefinite |
| Miscellaneous Federal Grants | 85,245 | 9,531 | 75,714 | 794% |

This could result in the School District making expenditures in excess of available balances.

We recommend that appropriations only be approved by the Board of Education for an amount not exceeding the amount of the estimated resources.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**EASTERN LOCAL SCHOOL DISTRICT
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------------------------------------------|
| 2002-10766-001 | A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expenditures plus encumbrances exceeding appropriations. | No. | Not Corrected: Reissued as Finding Number 2003-001. |
| 2002-10766-002 | A noncompliance citation was issued under Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources. | No. | Not Corrected: Reissued as Finding Number 2003-002. |
| 2002-10766-003 | A reportable condition was issued for the Board of Education authorizing the Superintendent to approve contract change orders thus eliminating potential monitoring by the Board. | Yes. | |
| 2002-10766-004 | A reportable condition was issued for problems noted with the School District's fixed assets. | Yes. | |
| 2002-10766-005 | A reportable condition was issued for a potential conflict for a Board member holding a potentially incompatible position with the Pike Joint Vocational School. | Yes. | |



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EASTERN LOCAL SCHOOL DISTRICT

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 11, 2004**