



**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY  
SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual General Fund.....	21
Statement of Fund Net Assets Internal Service Fund.....	23
Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Fund.....	25
Statement of Cash Flows .....	27
Statement of Fiduciary Assets and Liabilities.....	29
Notes to the Basic Financial Statements .....	31
Federal Awards Receipts and Expenditures Schedule.....	55
Notes to the Federal Awards Receipts and Expenditures Schedule .....	56
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by <i>Government Auditing Standards</i> .....	57
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	59
Schedule of Findings.....	61

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

East Holmes Local School District  
Holmes County  
P.O. Box 182  
Berlin, Ohio 44610

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 East Holmes Local School District, Holmes County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule provides additional information and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

December 5, 2005

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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The discussion and analysis of East Holmes Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. 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 financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key Financial Highlights for 2005 are as follows:

- In total, net assets increased by \$368,505
- Revenues for governmental activities totaled \$17,845,895 in 2005. Of this total, 77 percent consisted of General revenues while Program revenues accounted for the balance of 23 percent.
- Program expenses totaled \$17,477,390. Instructional expenses made up 58.4 percent of this total while support services accounted for 32.9 percent. Other expenses rounded out the remaining 8.7 percent.
- Outstanding general obligation bonded debt decreased to \$3,520,000 from \$3,230,000 in 2005.

### **Using this Annual Financial Report**

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

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain 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 most significant funds with all other non-major funds presented in total in one column. In the case of East Holmes Local School District, the general fund by far is the most significant fund.

### **Reporting the School District as a Whole**

#### *Statement of Net Assets and the Statement of Activities*

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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private-sector companies. Accrual 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 performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

In the Statement of Net Assets and the Statement of Activities, the School District is classified into governmental activities. All of the School District's Non-Fiduciary programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food service and extracurricular activities.

### **Reporting the School District's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. 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 only major governmental fund is the general fund.

#### *Governmental Funds*

Most of the School District's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are 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 government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

### **The School District as a Whole**

You may 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 2005 compared to 2004:



**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

Table I  
Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current and Other Assets	\$15,972,575	\$15,116,020
Capital Assets, Net	<u>12,336,015</u>	<u>12,469,374</u>
Total Assets	<u>28,308,590</u>	<u>27,585,394</u>
<b>Liabilities</b>		
Current and Other Liabilities	10,568,372	9,927,751
Long-Term Liabilities:		
Due Within One Year	327,601	330,936
Due in More than One Year	<u>3,644,730</u>	<u>3,927,325</u>
Total Liabilities	<u>14,540,703</u>	<u>14,186,012</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	9,122,013	8,949,374
Restricted	0	
Capital Outlay	219,255	169,217
Debt Service	240,164	218,812
Other Purpose	569,477	389,993
Unrestricted	<u>3,616,978</u>	<u>3,671,986</u>
Total Net Assets	<u>\$13,767,887</u>	<u>\$13,399,382</u>

Total assets increased by \$723,196. The majority of this increase can be attributed directly to the area of current assets. More specifically, this increase in assets was derived from increases in cash and taxes receivable.

Total liabilities increased by \$354,691. The most notable area of increase was deferred revenue.

By comparing assets and liabilities, one can see the overall position of the School District has improved as evidenced by the increase in net assets of \$368,505.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$13,755,819 or 77 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$4,090,076 or only 23 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2005 as compared to fiscal year 2004.

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

Changes in Net Assets

	Governmental Activities	
	2005	2004
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$1,140,158	\$1,094,002
Operating Grants and Contributions	2,949,918	2,229,739
<i>Total Program Revenues</i>	4,090,076	3,323,741
General Revenues:		
Property Taxes	8,029,521	7,455,648
Grants and Entitlements	5,432,441	4,944,768
Investments	135,403	95,255
Gain on Sale of Assets	0	3,514
Miscellaneous	158,454	154,142
<i>Total General Revenues</i>	13,755,819	12,653,327
<b>Total Revenues</b>	17,845,895	15,977,068
<b>Program Expenses</b>		
Instruction		
Regular	7,468,559	6,666,771
Special	2,325,778	1,919,207
Vocational	420,049	383,222
Support Services:		
Pupil	524,843	521,046
Instructional Staff	1,032,898	798,885
Board of Education	32,064	32,822
Administration	1,407,143	1,274,311
Fiscal	389,801	397,815
Operation and Maintenance	1,312,363	1,174,330
Pupil Transportation	921,088	936,592
Central	130,892	165,507
Operating of Non-Instructional Services	695,311	627,178
Extracurricular Activities	494,346	397,209
Capital Outlay	138,533	0
Interest and Fiscal Charges	183,722	197,743
<b>Total Program Expenses</b>	17,477,390	15,492,638
<b>Increase in Net Assets</b>	\$368,505	\$484,430

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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***Governmental Activities***

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District has several continuing levies for a total of 18 mills, which currently generate an estimated \$5,801,000 in revenues. The School District also collects \$550,000 from a five year emergency levy that was last renewed in 2004, and will be put before the voters for renewal in 2009.

Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

As one can see, approximately 58.4 percent of the School Districts expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 32.9 percent. The remaining amount of program expenses, roughly 8.7 percent, is to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

Actual expenses were consistent with expectations and the School District even exhibited an increase in net assets in 2005 of \$368,505. This increase was primarily due to revenues exceeding expenses.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

Table 3  
 Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Instruction				
Regular	\$7,468,559	\$6,619,293	\$6,666,771	\$5,883,724
Special	2,325,778	746,370	1,919,207	837,887
Vocational	420,049	419,402	383,222	383,222
Support Services:				
Pupil	524,843	320,907	521,046	319,629
Instructional Staff	1,032,898	560,435	798,885	431,728
Board of Education	32,064	32,064	32,822	32,822
Administration	1,407,143	1,282,459	1,274,311	1,165,438
Fiscal	389,801	389,801	397,815	397,815
Operation and Maintenance	1,312,363	1,298,212	1,174,330	1,156,699
Pupil Transportation	921,088	897,248	936,592	914,054
Central	130,892	91,401	165,507	150,994
Food Service Operations	695,311	64,937	627,178	48,436
Extracurricular Activities	494,346	342,530	397,209	248,706
Capital Outlay	138,533	138,533	0	0
Interest and Fiscal Charges	183,722	183,722	197,743	197,743
Total	<u>\$17,477,390</u>	<u>\$13,387,314</u>	<u>\$15,492,638</u>	<u>\$12,168,897</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Nearly 45.0 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 30.4 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 23.4 percent of all governmental expenses.

***Clearly, the East Holmes community is by far the greatest source of financial support for the students of the East Holmes Local Schools.***

### School District's Funds

Information regarding the School District's major funds can be found on page 16. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,856,518 and expenditures of \$17,503,883. The General Fund balance decreased \$34,970 due to increased spending by the School District.

### 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 fund to be budgeted is the main operating fund of the School District, the general fund.

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

During the course of fiscal 2005, the School District amended its general fund budget numerous times, none significant. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control disbursements but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$13,476,000; this was above original budget estimates of \$13,113,500. The main difference between the original and final estimates was due to an under estimation of taxes and an under estimation of intergovernmental receipts. The budget basis expenditures estimate totaled \$14,124,634 and remained the same for the general fund throughout the year.

The School District's unencumbered ending cash balance totaled \$5,038,576, which was above the original budgeted amount, due to higher revenues than originally anticipated and lower actual expenditures than budgeted.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2005, the School District had \$12,336,016 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, net of accumulated depreciation. Table 4 shows fiscal 2005 values compared to 2004.

Table 4  
 Capital Assets at June 30  
 (Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$914,770	\$914,770
Construction in Progress	0	138,533
Land Improvements	743,958	698,942
Buildings and Improvements	15,373,135	15,189,602
Furniture and Equipment	1,416,522	1,248,472
Vehicles	1,414,926	1,266,141
Accumulated Depreciation	(7,527,295)	(6,987,086)
Totals	\$12,336,016	\$12,469,374

All capital assets are reported at historical cost. There was no significant change in capital assets during the course of the year. For more information on capital assets refer to Note 5 of the basic financial statements.

*Debt*

At June 30, 2005 the School District had \$3,230,000 in bonds outstanding. Table 5 below summarizes the School District's bonds outstanding.

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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Table 5  
 Outstanding Debt at June 30

	Governmental Activities	
	2005	2004
1999 Refunding Bonds	510,000	690,000
2001 Hiland Renovation Bonds	2,720,000	2,830,000
Totals	\$3,230,000	\$3,520,000

The 1999 refunding bonds were issued to pay off earlier bonds that had been issued for upgrades and additions at the School District's elementary buildings. The new bonds will be paid off in fiscal year 2008.

The 2001 Hiland renovation bonds were issued to update and expand the Hiland High School and Middle School facility. This debt will be fully repaid in fiscal year 2021.

The School District's overall legal debt margin was \$30,788,211 with an unvoted debt margin of \$342,091. For more information on debt refer to Note 7 of the basic financial statements.

**School District Outlook**

East Holmes Local Schools has a strong financial outlook. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan.

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system.

Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong. As mentioned earlier, the East Holmes voters had renewed a \$550,000 emergency levy in March, 2004, which will help fund the general operations of the School District through the first half of fiscal year 2010. The School District is expecting to have a positive general fund balance through the end of the 2008 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2008 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

**East Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In December, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding system. The decision reaffirmed earlier decisions that Ohio's current school funding system is unconstitutional. However, the Supreme Court also relinquished jurisdiction over the case and directed the "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

East Holmes Local School District has not anticipated any meaningful growth in State revenue due to the constraints set by the State for estimating state funding. The State has stated that the per pupil revenue for a minimum education should be increased at an inflationary rate of 2.2 percent per year for future years. The affect of a 2004 property reappraisal will have a negative affect on the State's share of per pupil funding. With 45.0 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint would have on the School District and ultimately, the residential taxpayers.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, 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 Marsha K. Clark, CPA, Treasurer, at East Holmes Local School District, P.O. Box 182, Berlin, Ohio 44610, or email at [EHLM\\_Clark@tccsa.net](mailto:EHLM_Clark@tccsa.net).

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**East Holmes Local School District**  
**Statement of Net Assets**  
**June 30, 2005**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 6,364,426
Cash and Cash Equivalents in Segregated Accounts	391,264
Inventory Held for Resale	33,441
Materials and Supplies Inventory	43,118
Accrued Interest Receivable	7,000
Accounts Receivable	42,855
Intergovernmental Receivable	346,092
Prepaid Items	22,928
Taxes Receivable	8,721,451
Non-Depreciable Capital Assets	914,770
Depreciable Capital Assets, net	11,421,245
<i>Total Assets</i>	\$ 28,308,590
<b>LIABILITIES:</b>	
Accounts Payable	\$ 160,191
Accrued Wages and Benefits	1,186,593
Contracts Payable	0
Intergovernmental Payable	393,457
Accrued Interest Payable	14,819
Accrued Vacation Leave Payable	25,478
Matured Compensated Absences Payable	14,676
Deferred Revenue	8,646,734
Claims Payable	126,424
Due Within One Year	327,601
Due in More Than One Year	3,644,730
<i>Total Liabilities</i>	14,540,703
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	9,122,013
Restricted for Debt Service	219,255
Restricted for Capital Outlay	240,164
Restricted for Other Purposes	569,477
Unrestricted	3,616,978
<i>Total Net Assets</i>	\$ 13,767,887

See accompanying notes to the basic financial statements

**East Holmes Local School District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2005**

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$ 7,468,559	\$ 408,234	\$ 441,032
Special	2,325,778	48,155	1,531,253
Vocational	420,049	647	0
Support Services:			
Pupils	524,843	0	203,936
Instructional Staff	1,032,898	135,030	337,433
Board of Education	32,064	0	0
Administration	1,407,143	0	124,684
Fiscal	389,801	0	0
Operation and Maintenance of Plant	1,312,363	14,151	0
Pupil Transportation	921,088	0	23,840
Central	130,892	28,086	11,405
Operation of Non-Instructional Services:			
Food Service Operations	695,311	357,489	272,885
Extracurricular Activities	494,346	148,366	3,450
Capital Outlay	138,533	0	0
Interest and Fiscal Charges	183,722	0	0
<b>Total Governmental Activities</b>	<b>\$ 17,477,390</b>	<b>\$ 1,140,158</b>	<b>\$ 2,949,918</b>

General Revenues:	
Property Taxes Levied:	
General Purposes	7,345,961
Debt Service	457,476
Capital Outlay	226,084
Grants and Entitlements not Restricted to Specific Programs	5,432,441
Investment Earnings	135,403
Miscellaneous	158,454
<b>Total General Revenues</b>	<b>13,755,819</b>
Change in Net Assets	368,505
Net Assets Beginning of Year	13,399,382
Net Assets End of Year	<b>\$ 13,767,887</b>

See accompanying notes to the basic financial statements

**Net(Expense)Revenue and  
Changes in Net Assets**

**Governmental**

**Activities**

---

\$	(6,619,293)
	(746,370)
	(419,402)
	(320,907)
	(560,435)
	(32,064)
	(1,282,459)
	(389,801)
	(1,298,212)
	(897,248)
	(91,401)
	(64,937)
	(342,530)
	(138,533)
	(183,722)
\$	<u>(13,387,314)</u>

	7,345,961
	457,476
	226,084
	5,432,441
	135,403
	<u>158,454</u>
	13,755,819
	368,505
	13,399,382
\$	<u><u>13,767,887</u></u>

**East Holmes Local School District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	<u>General Fund</u>	<u>Other Governmental Funds</u>
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 5,194,528	\$ 1,169,898
Inventory Held for Resale	0	33,441
Materials and Supplies Inventory	42,545	573
Accrued Interest Receivable	7,000	0
Accounts Receivable	6,361	12,021
Intergovernmental Receivable	53,632	292,460
Prepaid Items	22,928	0
Taxes Receivable	<u>8,008,356</u>	<u>713,095</u>
<i>Total Assets</i>	<u>\$ 13,335,350</u>	<u>\$ 2,221,488</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable	\$ 90,795	\$ 69,396
Accrued Wages and Benefits	973,831	212,762
Intergovernmental Payable	224,529	44,523
Matured Compensated Absences Payable	14,676	0
Deferred Revenue	<u>7,956,761</u>	<u>708,501</u>
<i>Total Liabilities</i>	<u>9,260,592</u>	<u>1,035,182</u>
<b>FUND BALANCES:</b>		
Reserved:		
Reserved for Encumbrances	80,116	146,525
Reserved for Property Taxes	51,595	4,594
Unreserved, Undesignated, Reported in:		
General Fund	3,943,047	0
Special Revenue Funds	0	604,192
Debt Service Funds	0	246,019
Capital Projects Funds	<u>0</u>	<u>184,976</u>
<i>Total Fund Balances</i>	<u>4,074,758</u>	<u>1,186,306</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 13,335,350</u>	<u>\$ 2,221,488</u>

See accompanying notes to the basic financial statements

**East Holmes Local School District**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2005**

<hr/> <hr/>	<hr/> <hr/>	
<b>Total Governmental Funds</b>	<b>Total Governmental Fund Balances</b>	5,261,064
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
<p>\$ 6,364,426</p> <p style="padding-left: 20px;">33,441</p> <p style="padding-left: 20px;">43,118</p> <p style="padding-left: 20px;">7,000</p> <p style="padding-left: 20px;">18,382</p> <p style="padding-left: 20px;">346,092</p> <p style="padding-left: 20px;">22,928</p> <p style="padding-left: 20px;">8,721,451</p> <hr/> <p>\$ 15,556,838</p> <hr/> <hr/> <p>\$ 160,191</p> <p style="padding-left: 20px;">1,186,593</p> <p style="padding-left: 20px;">269,052</p> <p style="padding-left: 20px;">14,676</p> <p style="padding-left: 20px;">8,665,262</p> <hr/> <p>10,295,774</p> <p>226,641</p> <p style="padding-left: 20px;">56,189</p> <p>3,943,047</p> <p style="padding-left: 20px;">604,192</p> <p style="padding-left: 20px;">246,019</p> <p style="padding-left: 20px;">184,976</p> <hr/> <p>5,261,064</p> <hr/> <hr/> <p>\$ 15,556,838</p> <hr/> <hr/>	<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. <span style="float: right;">12,336,015</span></p> <p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes and intergovernmental receivables.</p> <p style="padding-left: 40px;">Property Taxes <span style="float: right;">18,528</span></p> <p>Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. <span style="float: right;">(124,405)</span></p> <p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. <span style="float: right;">(14,819)</span></p> <p>Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.</p> <p style="padding-left: 40px;">Vacation Benefits Payable <span style="float: right;">(25,478)</span></p> <p>Long-term liabilities, including bonds payable, long term notes, and compensating absences, and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:</p> <p style="padding-left: 40px;">Compensated Absences Payable <span style="float: right;">(742,331)</span></p> <p style="padding-left: 40px;">General Obligation Bonds <span style="float: right;"><u>(3,230,000)</u></span></p> <p style="padding-left: 40px;">Total <span style="float: right;">(3,972,331)</span></p> <p>An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. <span style="float: right;"><u>289,313</u></span></p>	<p><b>Net Assets of Governmental Activities</b> <span style="float: right;"><u><u>\$13,767,887</u></u></span></p>

**East Holmes Local School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Other Governmental Funds</b>
<b>REVENUES:</b>		
Property and Other Local Taxes	\$ 7,355,552	\$ 684,592
Intergovernmental	5,370,553	2,986,617
Interest	134,703	700
Tuition and Fees	453,556	17,017
Rent	14,151	0
Extracurricular Activities	0	297,945
Gifts and Donations	0	25,189
Customer Sales and Services	0	357,489
Miscellaneous	107,908	50,546
<i>Total Revenues</i>	<u>13,436,423</u>	<u>4,420,095</u>
<b>EXPENDITURES:</b>		
<b>Current:</b>		
<b>Instruction:</b>		
Regular	6,712,015	437,393
Special	919,464	1,363,560
Vocational	401,275	0
<b>Support Services:</b>		
Pupils	266,557	252,682
Instructional Staff	599,009	404,357
Board of Education	32,064	0
Administration	1,237,803	123,206
Fiscal	369,682	15,856
Operation and Maintenance of Plant	1,257,064	2,009
Pupil Transportation	1,003,266	23,490
Central	84,079	48,219
<b>Operation of Non-Instructional Services:</b>		
Food Service Operations	0	656,697
Extracurricular Activities	128,662	199,541
Capital Outlay	317,922	130,212
Building Improvement Services	0	12,898
<b>Debt Service:</b>		
Principal	0	320,000
Interest	0	184,901
<i>Total Expenditures</i>	<u>13,328,862</u>	<u>4,175,021</u>
<i>Excess of Revenues Over Expenditures</i>	<u>107,561</u>	<u>245,074</u>
<b>OTHER FINANCING SOURCES AND USES:</b>		
Proceeds from Sale of Capital Assets	7,469	0
Transfers Out	(150,000)	0
<i>Total Other Financing Sources and Uses</i>	<u>(142,531)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(34,970)	245,074
<i>Fund Balance at Beginning of Year</i>	4,109,728	941,232
<i>Fund Balance at End of Year</i>	<u>\$ 4,074,758</u>	<u>\$ 1,186,306</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2005**

<b>Total</b>	<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>210,104</b>																																																																																			
<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 100%;"><b>Governmental Funds</b></td> </tr> <tr> <td style="border-top: 1px solid black;">\$ 8,040,144</td> </tr> <tr> <td>8,357,170</td> </tr> <tr> <td>135,403</td> </tr> <tr> <td>470,573</td> </tr> <tr> <td>14,151</td> </tr> <tr> <td>297,945</td> </tr> <tr> <td>25,189</td> </tr> <tr> <td>357,489</td> </tr> <tr> <td>158,454</td> </tr> <tr> <td style="border-top: 1px solid black;">17,856,518</td> </tr> <tr> <td>7,149,408</td> </tr> <tr> <td>2,283,024</td> </tr> <tr> <td>401,275</td> </tr> <tr> <td>519,239</td> </tr> <tr> <td>1,003,366</td> </tr> <tr> <td>32,064</td> </tr> <tr> <td>1,361,009</td> </tr> <tr> <td>385,538</td> </tr> <tr> <td>1,259,073</td> </tr> <tr> <td>1,026,756</td> </tr> <tr> <td>132,298</td> </tr> <tr> <td>656,697</td> </tr> <tr> <td>328,203</td> </tr> <tr> <td>448,134</td> </tr> <tr> <td>12,898</td> </tr> <tr> <td>320,000</td> </tr> <tr> <td>184,901</td> </tr> <tr> <td style="border-top: 1px solid black;">17,503,883</td> </tr> <tr> <td>352,635</td> </tr> <tr> <td style="border-top: 1px solid black;">7,469</td> </tr> <tr> <td>(150,000)</td> </tr> <tr> <td style="border-top: 1px solid black;">(142,531)</td> </tr> <tr> <td>210,104</td> </tr> <tr> <td>5,050,960</td> </tr> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 5,261,064</td> </tr> </table>	<b>Governmental Funds</b>	\$ 8,040,144	8,357,170	135,403	470,573	14,151	297,945	25,189	357,489	158,454	17,856,518	7,149,408	2,283,024	401,275	519,239	1,003,366	32,064	1,361,009	385,538	1,259,073	1,026,756	132,298	656,697	328,203	448,134	12,898	320,000	184,901	17,503,883	352,635	7,469	(150,000)	(142,531)	210,104	5,050,960	\$ 5,261,064	<p><b>Amounts reported for governmental activities in the statement of activities are different because</b></p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Capital Outlays</td> <td style="text-align: right;">520,687</td> <td></td> </tr> <tr> <td>Loss on Capital Assets</td> <td style="text-align: right;">(4,629)</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right; border-bottom: 1px solid black;">(649,416)</td> <td></td> </tr> <tr> <td style="text-align: right;">Total</td> <td></td> <td style="text-align: right;">(133,358)</td> </tr> </table> <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Taxes</td> <td></td> <td style="text-align: right;">(10,623)</td> </tr> </table> <p>Repayment of notes payable and bonds payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Notes Payable</td> <td style="text-align: right;">30,000</td> <td></td> </tr> <tr> <td>Bonds Payable</td> <td style="text-align: right; border-bottom: 1px solid black;">290,000</td> <td></td> </tr> <tr> <td style="text-align: right;">Total</td> <td></td> <td style="text-align: right;">320,000</td> </tr> </table> <p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td></td> <td style="text-align: right;">1,179</td> </tr> </table> <p>Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payables which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Pension Contributions</td> <td style="text-align: right;">(2,418)</td> <td></td> </tr> <tr> <td>Vacation Payable</td> <td style="text-align: right;">25,478</td> <td></td> </tr> <tr> <td>Compensated Absences</td> <td style="text-align: right; border-bottom: 1px solid black;">(60,664)</td> <td></td> </tr> <tr> <td style="text-align: right;">Total</td> <td></td> <td style="text-align: right;">(37,604)</td> </tr> </table> <p>The internal service funds used by management to charge the costs of health insurance is included in the statement of activities and not on the governmental fund expenditures. This is the amount that expenses exceeded revenues during the year.</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td></td> <td style="text-align: right;">18,807</td> </tr> </table>	Capital Outlays	520,687		Loss on Capital Assets	(4,629)		Depreciation	(649,416)		Total		(133,358)	Taxes		(10,623)	Notes Payable	30,000		Bonds Payable	290,000		Total		320,000			1,179	Pension Contributions	(2,418)		Vacation Payable	25,478		Compensated Absences	(60,664)		Total		(37,604)			18,807	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;"><b>\$</b></td> <td style="text-align: right;"><b>368,505</b></td> </tr> <tr> <td style="border-top: 1px solid black;"><b>Change in Net Assets of Governmental Activities</b></td> <td style="border-top: 1px solid black; text-align: right;"><b>\$</b></td> <td style="border-top: 1px solid black; text-align: right;"><b>368,505</b></td> </tr> </table>		<b>\$</b>	<b>368,505</b>	<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>368,505</b>
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**East Holmes Local School District**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget (Non-GAAP Basis) and Actual**  
**General**  
**For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 7,275,000	\$ 7,390,000	\$ 7,387,010	\$ (2,990)
Intergovernmental	5,050,000	5,350,000	5,327,595	(22,405)
Interest	125,000	132,500	129,861	(2,639)
Tuition and Fees	423,500	463,500	453,556	(9,944)
Rent	17,500	17,500	14,151	(3,349)
Gifts and Donations	0	0	0	-
Miscellaneous	222,500	122,500	103,963	(18,537)
<b>Total Revenues</b>	<u>13,113,500</u>	<u>13,476,000</u>	<u>13,416,136</u>	<u>(59,864)</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	6,807,558	6,848,308	6,697,688	150,620
Special	948,973	948,223	919,522	28,701
Vocational	410,448	410,448	399,307	11,141
Other	0	0	0	-
<b>Support Services:</b>				
Pupils	301,993	301,993	271,507	30,486
Instructional Staff	651,975	651,975	622,848	29,127
Board of Education	38,725	38,725	30,404	8,321
Administration	1,298,925	1,298,925	1,254,203	44,722
Fiscal	406,446	396,446	371,642	24,804
Operation and Maintenance of Plant	1,451,876	1,451,876	1,301,253	150,623
Pupil Transportation	1,146,275	1,141,275	1,112,789	28,486
Central	109,444	109,444	79,584	29,860
Extracurricular Activities	151,450	151,450	128,755	22,695
Capital Outlay	400,546	375,546	312,400	63,146
<b>Total Expenditures</b>	<u>14,124,634</u>	<u>14,124,634</u>	<u>13,501,902</u>	<u>622,732</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(1,011,134)</u>	<u>(648,634)</u>	<u>(85,766)</u>	<u>562,868</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Proceeds from Sale of Fixed Assets	10,000	10,000	7,469	(2,531)
Transfers Out	(150,000)	(150,000)	(150,000)	0
<b>Total Other Financing Sources</b>	<u>(140,000)</u>	<u>(140,000)</u>	<u>(142,531)</u>	<u>(2,531)</u>
<b>Net Change in Fund Balances</b>	<u>(1,151,134)</u>	<u>(788,634)</u>	<u>(228,297)</u>	<u>560,337</u>
Fund Balance at Beginning of Year	4,687,883	4,687,883	4,687,883	0
Prior Year Encumbrances Appropriated	578,990	578,990	578,990	0
<b>Fund Balance at End of Year</b>	<u>\$ 4,115,739</u>	<u>\$ 4,478,239</u>	<u>\$ 5,038,576</u>	<u>\$ 560,337</u>

See accompanying notes to the basic financial statements

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**East Holmes Local School District**  
**Statement of Fund Net Assets**  
**Internal Service Fund**  
**June 30, 2005**

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	<u>Self-Insurance Fund</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 391,264
Accounts Receivable	24,473
	<hr/>
<i>Total Assets</i>	<u>415,737</u>
LIABILITIES:	
Claims Payable	<u>126,424</u>
NET ASSETS:	
Unrestricted	<u><u>\$ 289,313</u></u>

See accompanying notes to the basic financial statements

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**East Holmes Local School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2005**

	<b>Self-Insurance Fund</b>
OPERATING REVENUES:	
Charges for Services	\$ 1,524,404
OPERATING EXPENSES:	
Purchased Services	163,482
Claims	1,492,115
<i>Total Operating Expenses</i>	<u>1,655,597</u>
<i>(Loss) Before Contributions and Transfers</i>	(131,193)
Transfers In	<u>150,000</u>
<i>Net Change in Net Assets</i>	18,807
<i>Net Assets at Beginning of Year</i>	270,506
<i>Net Assets at End of Year</i>	<u>\$ 289,313</u>

See accompanying notes to the basic financial statements

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**East Holmes Local School District**  
**Statement of Cash Flows**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2005**

	<b>Self-Insurance Fund</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions with Other Funds	\$ 1,524,404
Cash Payments for Claims	(1,524,431)
Cash Payments for Goods and Services	(163,482)
<i>Net Cash Used in Operating Activities</i>	(163,509)
Transfer In	150,000
<i>Cash and Cash Equivalents Beginning of Year</i>	404,773
<i>Cash and Cash Equivalents End of Year</i>	\$ 391,264
 <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
Operating Loss	\$ (131,193)
Decrease in Assets:	
Accounts Receivable	(24,473)
Decrease in Liabilities:	
Claims Payable	(7,843)
<i>Net Cash Used in Operating Activities</i>	\$ (163,509)

See accompanying notes to the basic financial statements

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**East Holmes Local School District**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Fund**  
**June 30, 2005**

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ASSETS:

Equity in Pooled Cash and Cash Equivalents	\$ 14,943
Accounts Receivable	<u>1,200</u>
<i>Total Assets</i>	<u><u>\$ 16,143</u></u>

LIABILITIES:

Accounts Payable	\$ 45
Undistributed Monies	1,805
Due to Students	<u>14,293</u>
<i>Total Liabilities</i>	<u><u>\$ 16,143</u></u>

See accompanying notes to the basic financial statements

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## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005

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### **NOTE 1      NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY**

The East Holmes Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. East Holmes Local School District is a Local District as defined by Section 3313.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District.

Average daily membership (ADM) as of October 1, 2004 was 1,866. The School District employed 167 certificated employees and 92 non-certificated employees.

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

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

The School District is involved with Tri-County Computer Service Association (TCCSA) and Buckeye Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 16.

Management believes the financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

### **NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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### 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 activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

### B. *FUND ACCOUNTING*

The School District used funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes 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 is the School District's major governmental fund:

*General Fund* The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

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

**Proprietary Fund Types** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the School District has no enterprise funds.

*Internal Service Fund* The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical benefits.

**Fiduciary Fund Type** 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. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds account for student activities.

### C. MEASUREMENT FOCUS

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All Non-Fiduciary 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.

## EAST HOLMES LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2005 (Continued)

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**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.

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

#### *D. 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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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. 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 the year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8.) 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

## EAST HOLMES LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2005 (Continued)

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

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

**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, 2005, but which were levied to finance fiscal year 2006 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

#### E. BUDGETARY DATA

All funds, other than agency funds are legally required to be budgeted and appropriated.

The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the function level within the General Fund. For all other funds, the legal level of control was at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

## EAST HOLMES LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2005 (Continued)

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The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

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

#### *F. CASH AND CASH EQUIVALENTS*

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" or as "cash and cash equivalents in segregated accounts".

During fiscal year 2005, investments were limited to STAROhio, the State Treasurer's Investment Pool and certificates of deposit. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005. Certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$134,703, which includes \$24,761 assigned from other District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.



## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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### G. *PREPAID ITEMS*

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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 the services are consumed.

### H. *INVENTORY*

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed/expended when used.

Inventories consist of donated and purchased food, supplies held for resale and supplies held for consumption.

### I. *RESTRICTED ASSETS*

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include note proceeds to be used for capital construction and amounts required by statute to be set-aside to create a reserve for textbooks and instructional materials. See Note 14 for additional information regarding set asides.

### J. *CAPITAL ASSETS*

All capital assets of the School District are classified as general capital assets. These assets generally 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 capital assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is \$2,500 for its general capital assets. 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 capitalized.

All capital assets except land 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:

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

Description	Governmental Activities Estimated Lives
Land Improvements	5 – 50 years
Buildings and Improvements	8 – 50 years
Furniture and Equipment	5 – 20 years
Vehicles	7 – 10 years

**K. COMPENSATED ABSENCES**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "mature compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported. For 2005, the retirement benefits of \$14,676 that were paid using expendable available resources.

**L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits 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 normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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### *M. NET ASSETS*

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

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

### *N. FUND BALANCE RESERVES*

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

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

### *O. OPERATING REVENUES AND EXPENSES*

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the funds.

### *P. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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**Q. EXTRAORDINARY AND SPECIAL ITEMS**

Extraordinary and special items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**R. ESTIMATES**

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

**NOTE 3 BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. Accordingly, the "Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual General Fund" is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and demonstrate compliance with the state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles are that:

- A. Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).
- C. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and note disclosures in the proprietary fund type (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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Net Change in Fund Balance

	General Fund
GAAP Basis	\$ (34,970)
Net Adjustments:	
Revenue Accruals	( 20,287)
Expenditure Accruals	( 17,091)
Encumbrances	<u>(155,949)</u>
Budget Basis	<u>\$(228,297)</u>

**NOTE 4      DEPOSITS AND INVESTMENTS**

The East Holmes Local School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the Financial Statements as "Equity in pooled cash and cash equivalents." The amount held at fiscal year end for the Employee Benefit Self Insurance Fund was \$391,264. All benefit deposits are made to the Plan Administrator's Depository Account. Collateral is held by a qualified third-party trustee in the name of the District.

*A. LEGAL REQUIREMENTS*

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

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

Inactive deposits are public deposits 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 or 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 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 or deposit accounts, including passbook accounts. Interim monies could be invested in the following

## EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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obligations provided they mature or are redeemable within two years from the date of purchase:

- 1) United State Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities, subject to the repurchase agreement, must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-loan money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).

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 District, and must be purchased with the expectation that it will be held to maturity.

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

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

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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 District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

**B. DEPOSITS**

At June 30, 2005, the carrying amount of the East Holmes Local School District deposits was \$6,359,601. Based on the criteria described in GASNB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$6,894,406 of the District's bank balance of \$7,250,921 was exposed to custodial risk as discussed below, while \$356,515 was covered by Federal Deposit Insurance Corporation.

**C. INVESTMENTS**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$ 891,320	\$ 891,320

*Interest Rate Risk* – As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less for investments with a fixed interest rate and two years or less for investments with a variable interest rate.

*Credit Risk* – STAROhio has been assigned an AAA rating by Standard & Poor's.

*Concentration of Credit Risk* – The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the District at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	\$ 891,320	100.0%

**NOTE 5      CAPITAL ASSETS AND ACCUMULATED DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

<u>Governmental Activities</u>	Balance July 1, 2004	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2005
Capital Assets, not being Depreciated:				
Land	\$ 914,770	\$ 0	\$ 0	\$ 914,770
Construction in Progress	<u>138,533</u>	<u>0</u>	<u>(138,533)</u>	<u>0</u>
Total Capital Assets, not being Depreciated	1,053,303	0	(138,533)	914,770
Capital Assets, being Depreciated:				
Land Improvements	698,942	45,016	0	743,958
Buildings & Building Improvements	15,189,602	183,533	0	15,373,135
Furniture, Fixtures & Equipment	1,248,472	198,635	(30,585)	1,416,522
Vehicles	<u>1,266,141</u>	<u>232,036</u>	<u>(83,251)</u>	<u>1,414,926</u>
Total Capital Assets, being Depreciated	18,403,157	659,220	(113,836)	18,948,541
Less Accumulated Depreciation:				
Land Improvements	(221,159)	(30,622)	1,123	(250,658)
Buildings & Building Improvements	(5,241,419)	(423,985)	195	(5,665,209)
Furniture, Fixtures & Equipment	(819,044)	(70,399)	24,638	(864,805)
Vehicles	<u>(705,464)</u>	<u>(124,411)</u>	<u>83,251</u>	<u>(746,624)</u>
Total Accumulated Depreciation	(6,987,086)	(649,417)	109,207	(7,527,296)
Total Capital Assets being Depreciated, net	<u>11,416,071</u>	<u>9,804</u>	<u>(4,629)</u>	<u>11,421,245</u>
Governmental Activities Capital Assets, Net	<u>\$12,469,374</u>	<u>\$ 9,804</u>	<u>\$ (143,162)</u>	<u>\$12,336,015</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 255,630
Special	27,769
Vocational	13,039
Support Services:	
Pupils	3,690
Instructional Staff	32,199
Administration	24,072
Fiscal Services	2,414
Operation and Maintenance of Plant	31,609
Pupil Transportation	118,070
Food Services	31,521
Extracurricular Activities	<u>109,404</u>
Total Depreciation Expense	<u>\$ 649,417</u>



**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

**NOTE 6      RECEIVABLES**

Receivables at June 30, 2005, consisted of taxes, intergovernmental receivables and accounts receivable. All receivables are considered collectible in full due to the ability for foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

The following is a summary of the intergovernmental receivables:

<u>Governmental Activities:</u>	
Refunds	\$ 7,412
Transportation Agreement	9,637
Excess Costs from Other Districts	36,583
Grants	<u>292,460</u>
Total Intergovernmental Receivables	<u>\$346,092</u>

**NOTE 7      GENERAL LONG-TERM OBLIGATIONS**

	<u>Outstanding July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2005</u>	<u>Amounts Due In One Year</u>
Compensated Absences Payable	\$708,261	\$71,671	\$ 37,601	\$742,331	\$ 37,601
Notes Payable	30,000	0	30,000	0	0
Bonds Payable (6.65%-7.70%)	<u>3,520,000</u>	<u>0</u>	<u>290,000</u>	<u>3,230,000</u>	<u>290,000</u>
	<u>\$4,258,261</u>	<u>\$71,671</u>	<u>\$357,601</u>	<u>\$3,972,331</u>	<u>\$327,601</u>

Compensated absences will be paid from the fund in which the employee's salaries are paid.

The notes payable were issued in 1998 to pay for five acres of land that was purchased at the Hiland High School and Middle School site.

The bonds payable are from two separate issues. The 1999 refunding bonds were issued to pay off earlier bonds that had been issued for upgrades and additions at the School District's elementary buildings. The new bonds will be paid off in fiscal year 2008. The 2001 Hiland renovation bonds were issued to update and expand the Hiland High School and Middle School facility. This debt will be fully repaid in fiscal year 2021.

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2005, including interest payments of \$1,472,569, are as follows:

Year Ending June 30,	<u>1999</u> Principal	<u>Refunding</u> <u>Interest</u>	<u>2001</u> Principal	<u>Hiland</u> <u>Interest</u>
2006	175,000	21,246	115,000	149,377
2007	170,000	12,665	120,000	143,503
2008	165,000	4,207	125,000	137,377
2009	0	0	135,000	130,810
2010	0	0	140,000	123,798
2011-2015	0	0	805,000	501,524
2016-2020	0	0	1,035,000	240,559
2021	<u>0</u>	<u>0</u>	<u>245,000</u>	<u>7,503</u>
Total	<u>\$510,000</u>	<u>\$ 38,118</u>	<u>\$2,720,000</u>	<u>\$1,434,451</u>

**NOTE 8      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 (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed valued for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2004, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District received property taxes from Holmes and Wayne County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$51,595 in the general fund, \$3,049 in the debt service fund, and \$1,546 in the capital projects fund. The amount available as an advance at June 30, 2004 was \$83,053 in the general fund, \$5,839 in the debt service fund, and \$2,564 in the capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue, while on a modified accrual basis the revenue has been deferred.

The assessed property values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$273,004,110	79.80%	\$302,948,030	80.77%
Public Utility Personal	6,066,106	1.78%	6,399,940	1.70%
Tangible Personal Property	<u>63,021,018</u>	<u>18.42%</u>	<u>65,733,709</u>	<u>17.53%</u>
Total Valuation	<u>\$342,091,234</u>	<u>100.00%</u>	<u>\$375,081,649</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed valuation	\$23.66		\$23.33	

**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

**NOTE 9      RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The district has a comprehensive property and casualty policy with Indiana Insurance. The deductible is \$1,000 per incident on property and \$500 per incident on equipment. All vehicles are insured by Nationwide Insurance and have a \$250 deductible. All board members, administrators and employees are covered under a school district liability policy with Nationwide/Wausau Insurance. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per aggregate. The Treasurer is covered under a surety bond in the amount of \$25,000.

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

The District maintains a health insurance plan for its employees. The monthly insurance premiums are paid to the Plan Administrator, Aultcare Corporation, and recorded as an expense on the District's books. The District accounts for this activity in an Internal Service Fund. The plan includes stop loss coverage with a limit of \$100,000 per individual and \$1,655,117 in the aggregate, per year.

The claims liability of \$126,424 reported in the fund at June 30, 2005, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

	Balance at Beginning of <u>Year</u>	<u>Claims</u>	<u>Payments</u>	Balance at End of <u>Year</u>
June 30, 2005	\$134,267	\$1,492,115	\$1,499,958	\$ 126,424
June 30, 2004	\$143,857	\$1,140,070	\$1,149,660	\$ 134,267

**NOTE 10      DEFINED BENEFIT PENSION PLANS**

*A. SCHOOL EMPLOYEES RETIREMENT SYSTEM*

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension system. SERS provides retirement and

## EAST HOLMES LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2005 (Continued)

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disability benefits, annual cost-of-living adjustments, and death benefits to 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 for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$229,116, \$180,605, and \$143,891, respectively; 67.5 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

#### *B. STATE TEACHERS RETIREMENT SYSTEM*

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based 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. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year

## EAST HOLMES LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2005 (Continued)

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of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$942,149, \$900,746, and \$848,977, respectively; 82.6 percent has been contributed for fiscal year 2005, and 100 percent for the fiscal year 2004 and 2003. Contributions to the DC and combined plans for fiscal year 2005 were \$11,680 made by the school district and \$23,276 made by the plan members.

#### **NOTE 11     POSTEMPLOYMENT BENEFITS**

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

Retirees who participated in the DC or Combined Plans and their 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. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$73,371 during fiscal year 2005.

## EAST HOLMES LOCAL SCHOOL DISTRICT

### Notes to the Basic Financial Statements For the Year Ended June 30, 2005 (Continued)

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STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability recipients and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contributions is allocated to providing health care benefits. For this fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from the fiscal year ended June 30, 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For fiscal year 2005, the minimum pay was established at \$27,400. For the District, the amount to fund healthcare benefits, including surcharge, equaled \$112,108 during the 2005 fiscal year.

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, before premium deductions. The target level for the health care reserve is 150 percent of the annual health care expenses. Gross expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

#### **NOTE 12      NON-CASH TRANSACTIONS**

The District receives food commodities for its food service obligations. The revenue recognized in grant income from the non-cash commodities was \$95,415.



**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

**NOTE 13      CONTINGENCIES**

*GRANTS*

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2005.

**NOTE 14      STATUTORY RESERVES**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves.

During fiscal year 2005, the state legislature determined that the budget reserve set-aside was no longer a requirement for school districts. In accordance with guidelines set forth, the funds in this set-aside were transferred to the general fund portion of the Hiland Addition and Renovation project.

During the fiscal year ended June 30, 2005, the reserve activity (GAAP basis) was as follows:

	<u>Textbook Reserve</u>	<u>Maintenance Reserve</u>	<u>Total</u>
Balance, June 30, 2004	\$ (34,334)	\$            0	\$ (34,334)
Required Set-Aside	267,516	267,516	535,032
Offset	0	(227,413)	(227,413)
Qualifying Expenditures	<u>(412,279)</u>	<u>(144,879)</u>	<u>(557,158)</u>
Balance, June 30, 2005	<u>\$ (179,097)</u>	<u>\$ (104,776)</u>	<u>\$(283,873)</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years.



**EAST HOLMES LOCAL SCHOOL DISTRICT**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

**NOTE 15      INTERFUND BALANCES AND TRANSFERS**

Interfund transfers for the year ended June 30, 2005, consisted of the following:

Transfer To	Transfers From		Totals
	General	Nonmajor Funds	
Insurance Fund	\$ 150,000	\$           0	\$ 150,000

\$150,000 was transferred from the general fund to the insurance fund for claims payments.

**NOTE 16      JOINTLY GOVERNED ORGANIZATIONS**

*A. TRI-COUNTY COMPUTER SERVICE ASSOCIATION (TCCSA)*

TCCSA is a jointly governed organization comprised of 22 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these district support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri County Educational Service Center, located in Wooster, Ohio, which serves as fiscal agent.

*B. BUCKEYE CAREER CENTER (Career Center)*

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The Board controls the financial activity of the Career center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and measurable equity interest exists.

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**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	PASS THROUGH ENTITY NUMBER	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<b>U.S. DEPARTMENT OF EDUCATION</b> (Passed Through Ohio Department of Education)						
Title I Grants to Local Educational Agencies	C1-S1-04 C1-S1-05	84.010	\$116,000 1,340,785		\$134,796 1,137,606	
Total Title I Grants to Local Educational Agencies			1,456,785		1,272,402	
Special Education - Grants to States	6B-SF-2004 6B-SF-2005	84.027	0 382,578		29,727 319,564	
Total Special Education - Grants to States			382,578		349,291	
Safe and Drug Free Schools and Communities State Grant	DR-S1-2004 DR-S1-2005	84.186	0 21,583		3,624 20,190	
Total Safe and Drug Free Schools and Communities State Grant			21,583		23,814	
Innovative Education Program Strategies	C2-S1-2005	84.298	7,467		7,233	
Education Technology State Grants	TJ-S1-2004 TJ-S1-2005	84.318	0 38,824		16,392 33,848	
Total Education Technology State Grants			38,824		50,240	
English Language Acquisition Grant	T3-S1-2004 T3-S1-2005	84.365	81,001 181,329		93,667 180,054	
Total English Language Acquisition Grant			262,330		273,721	
Improving Teacher Quality State Grant	TR-S1-2004 TR-S1-2005	84.367	20,500 233,892		34,739 213,533	
Total Improving Teacher Quality State Grant			254,392		248,272	
Total U.S. Department of Education			2,423,959		2,224,973	
<b>U.S. DEPARTMENT OF AGRICULTURE</b> (Passed Through Ohio Department of Education)						
Child Nutrition Cluster:						
Food Donation	N/A	10.550		\$95,415		\$95,415
National School Lunch Program	N/A	10.555	188,078		188,078	
Total U.S. Department of Agriculture - Child Nutrition Cluster			188,078	95,415	188,078	95,415
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b> (Passed Through State Library of Ohio)						
Library Services and Technology Act	III-17-04	45.310	55,097		55,097	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b> (Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program	N/A	93.778	13,986		13,986	
Total			<u>\$2,681,120</u>	<u>\$95,415</u>	<u>\$2,482,134</u>	<u>\$95,415</u>

See Accompanying Notes to the Schedule of Receipts and Expenditures of Federal Awards.

**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This 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.



**Auditor of State  
Betty Montgomery**

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

East Holmes Local School District  
Holmes County  
P.O. Box 182  
Berlin, Ohio 44610

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 5, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated December 5, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

East Holmes Local School District  
Holmes County  
Independent Accountants' Report on Internal Control over  
Financial Reporting and on Compliance and other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

December 5, 2005



## Auditor of State Betty Montgomery

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

East Holmes Local School District  
Holmes County  
P.O. Box 182  
Berlin, Ohio 44610

To the Board of Education:

#### Compliance

We have audited the compliance of East Holmes Local Scholl District, Holmes County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
Auditor of State

December 5, 2005



**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.





**Auditor of State  
Betty Montgomery**

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Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 30, 2005**