



Mary Taylor, CPA
Auditor of State

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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Mary Taylor, CPA

Auditor of State

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, the General 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, 2006, 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, the General Fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio, as of June 30, 2006, and the respective changes in financial position, and where applicable, cash flows, thereof and the budgetary comparison for the General Fund and 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 February 12, 2007, 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.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 12, 2007

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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, 2006. 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 2006 are as follows:

- In total, net assets increased by \$785,912
- Revenues for governmental activities totaled \$18,155,347 in 2006. Of this total, 80 percent consisted of General revenues while Program revenues accounted for the balance of 20 percent.
- Program expenses totaled \$17,369,435. Instructional expenses made up 57.0 percent of this total while support services accounted for 35.8 percent. Other expenses rounded out the remaining 7.2 percent.
- Outstanding general obligation bonded debt decreased from \$3,230,000 to \$2,940,000 in 2006.

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.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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 2006?" 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 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.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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 2006 compared to 2005:

Table I
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current and Other Assets	\$16,009,289	\$15,972,575
Capital Assets, Net	12,593,661	12,336,015
Total Assets	28,602,950	28,308,590
Liabilities		
Current and Other Liabilities	10,200,682	10,568,372
Long-Term Liabilities:		
Due Within One Year	325,260	327,601
Due in More than One Year	3,523,209	3,644,730
Total Liabilities	14,049,151	14,540,703
Net Assets		
Invested in Capital Assets, Net of Debt	9,684,478	9,122,013
Restricted:		
Capital Outlay	232,959	219,255
Debt Service	189,078	240,164
Other Purpose	328,234	569,477
Unrestricted	4,119,050	3,616,978
Total Net Assets	\$14,553,799	\$13,767,887

Total assets increased by \$294,360. This increase is equally distributed between increases in all asset categories and decreases in all liability categories.

Total liabilities decreased by \$491,552. The most notable area of decrease 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 \$785,912.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$14,474,424 or 80 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 \$3,680,923 or only 20 percent of total revenue.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for fiscal year 2006 as compared to fiscal year 2005.

	Governmental Activities	
	2006	2005
Revenues		
Program Revenues:		
Charges for Services	\$1,200,155	\$1,140,158
Operating Grants and Contributions	2,480,768	2,949,918
<i>Total Program Revenues</i>	<u>3,680,923</u>	<u>4,090,076</u>
General Revenues:		
Property Taxes	8,510,493	8,029,521
Grants and Entitlements	5,496,017	5,432,441
Investments	311,009	135,403
Gain on Sale of Assets	0	0
Miscellaneous	156,905	158,454
<i>Total General Revenues</i>	<u>14,474,424</u>	<u>13,755,819</u>
Total Revenues	<u>18,155,347</u>	<u>17,845,895</u>
Program Expenses		
Instruction		
Regular	7,431,239	7,468,559
Special	1,995,588	2,325,778
Vocational	478,783	420,049
Support Services:		
Pupil	799,229	524,843
Instructional Staff	1,024,919	1,032,898
Board of Education	25,094	32,064
Administration	1,594,059	1,407,143
Fiscal	398,630	389,801
Operation and Maintenance	1,258,880	1,312,363
Pupil Transportation	1,039,627	921,088
Central	80,312	130,892
Operating of Non-Instructional Services	700,672	695,311
Extracurricular Activities	372,979	494,346
Capital Outlay	0	138,533
Interest and Fiscal Charges	169,424	183,722
Total Program Expenses	<u>17,369,435</u>	<u>17,477,390</u>
Increase in Net Assets	<u>\$785,912</u>	<u>\$368,505</u>

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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 \$5,915,000 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 57.0 percent of the School Districts expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 35.8 percent. The remaining amount of program expenses, roughly 7.2 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 2006 of \$785,912. 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, 2006
Unaudited

Table 3
 Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction				
Regular	7,431,239	\$6,653,165	\$7,468,559	\$6,619,293
Special	1,995,588	662,691	2,325,778	746,370
Vocational	478,783	476,995	420,049	419,402
Support Services:				
Pupil	799,229	525,135	524,843	320,907
Instructional Staff	1,024,919	772,129	1,032,898	560,435
Board of Education	25,094	25,094	32,064	32,064
Administration	1,594,059	1,489,791	1,407,143	1,282,459
Fiscal	398,630	398,630	389,801	389,801
Operation and Maintenance	1,258,880	1,244,765	1,312,363	1,298,212
Pupil Transportation	1,039,627	1,021,489	921,088	897,248
Central	80,312	60,347	130,892	91,401
Food Service Operations	700,672	62,963	695,311	64,937
Extracurricular Activities	372,979	125,894	494,346	342,530
Capital Outlay	0	0	138,533	138,533
Interest and Fiscal Charges	169,424	169,424	183,722	183,722
Total	<u>\$17,369,435</u>	<u>\$13,688,512</u>	<u>\$17,477,390</u>	<u>\$13,387,314</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Nearly 49.0 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 31.7 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 21.2 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 \$18,156,106 and expenditures of \$17,844,826. The General Fund balance increased \$582,514 due to decreased 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, 2006
Unaudited

During the course of fiscal 2006, 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 \$14,171,000; this was above original revenue estimates of \$13,931,000. The main difference between the original and final estimates was due to an under estimation of interest income and an under estimation of intergovernmental receipts. The budget basis expenditures estimate totaled \$14,351,252; this was above the original budget estimates of \$14,324,790. This difference can be attributed to an increase in the estimate of expenditures for pupil transportation.

The School District's unencumbered ending cash balance totaled \$5,569,791, which was above the original budgeted amount, due mainly to lower actual expenditures than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the School District had \$12,593,661 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, net of accumulated depreciation. Table 4 shows fiscal 2006 values compared to 2005.

(Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$952,641	\$914,770
Construction in Progress	132,356	0
Land Improvements	1,191,635	743,958
Buildings and Improvements	15,426,507	15,373,135
Furniture and Equipment	1,538,983	1,416,522
Vehicles	1,450,565	1,414,926
Accumulated Depreciation	(8,099,026)	(7,527,296)
Totals	\$12,593,661	\$12,336,015

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, 2006 the School District had \$2,940,000 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, 2006
Unaudited

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2006	2005
1999 Refunding Bonds	335,000	510,000
2001 Hiland Renovation Bonds	2,605,000	2,720,000
Totals	\$2,940,000	\$3,230,000

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 \$33,757,351 with an unvoted debt margin of \$375,082. 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
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Unaudited

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 46.9 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.

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East Holmes Local School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 6,814,268
Cash and Cash Equivalents in Segregated Accounts	323,994
Inventory Held for Resale	20,938
Materials and Supplies Inventory	80,809
Accrued Interest Receivable	12,013
Accounts Receivable	6,097
Intergovernmental Receivable	282,577
Prepaid Items	27,979
Taxes Receivable	8,440,614
Non-Depreciable Capital Assets	1,084,997
Depreciable Capital Assets, net	11,508,664
<i>Total Assets</i>	\$ 28,602,950
LIABILITIES:	
Accounts Payable	\$ 142,928
Accrued Wages and Benefits	1,315,885
Contracts Payable	0
Intergovernmental Payable	427,376
Accrued Interest Payable	13,619
Accrued Vacation Leave Payable	27,072
Matured Compensated Absences Payable	85,183
Deferred Revenue	8,122,790
Claims Payable	65,829
Due Within One Year	325,260
Due in More Than One Year	3,523,209
<i>Total Liabilities</i>	14,049,151
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	9,684,478
Restricted for Debt Service	232,959
Restricted for Capital Outlay	189,078
Restricted for Other Purposes	328,234
Unrestricted	4,119,050
<i>Total Net Assets</i>	\$ 14,553,799

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$ 7,431,239	\$ 430,600	\$ 347,474
Special	1,995,588	66,224	1,266,672
Vocational	478,783	1,788	0
Support Services:			
Pupils	799,229	142,771	131,323
Instructional Staff	1,024,919	0	252,790
Board of Education	25,094	0	0
Administration	1,594,059	0	104,269
Fiscal	398,630	0	0
Operation and Maintenance of Plant	1,258,880	14,115	0
Pupil Transportation	1,039,627	0	18,138
Central	80,312	10,373	9,592
Operation of Non-Instructional Services:			
Food Service Operations	700,672	367,977	269,732
Extracurricular Activities	372,979	166,307	80,778
Interest and Fiscal Charges	169,424	0	0
Total Governmental Activities	\$ 17,369,435	\$ 1,200,155	\$ 2,480,768

General Revenues:

Property Taxes Levied:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

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

Governmental

Activities

\$	(6,653,165)
	(662,692)
	(476,995)
	(525,135)
	(772,129)
	(25,094)
	(1,489,790)
	(398,630)
	(1,244,765)
	(1,021,489)
	(60,347)
	(62,963)
	(125,894)
	(169,424)
\$	<u>(13,688,512)</u>

	7,821,232
	453,537
	235,724
	5,496,017
	311,009
	156,905
	<u>14,474,424</u>
	785,912
	13,767,887
\$	<u>14,553,799</u>

East Holmes Local School District
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General Fund</u>	<u>Other Governmental Funds</u>
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 5,867,696	\$ 946,572
Inventory Held for Resale	0	20,938
Materials and Supplies Inventory	80,346	463
Accrued Interest Receivable	12,013	0
Accounts Receivable	5,129	968
Intergovernmental Receivable	11,088	271,489
Prepaid Items	27,979	0
Taxes Receivable	<u>7,771,953</u>	<u>668,661</u>
<i>Total Assets</i>	<u><u>\$ 13,776,204</u></u>	<u><u>\$ 1,909,091</u></u>
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 110,211	\$ 32,717
Accrued Wages and Benefits	1,088,118	227,767
Intergovernmental Payable	343,840	83,536
Matured Compensated Absences Payable	81,094	4,089
Deferred Revenue	<u>7,495,669</u>	<u>644,890</u>
<i>Total Liabilities</i>	<u>9,118,932</u>	<u>992,999</u>
Equity:		
FUND BALANCES:		
Reserved:		
Reserved for Encumbrances	204,773	67,000
Reserved for Property Taxes	276,284	23,771
Unreserved, Undesignated, Reported in:		
General Fund	4,176,215	0
Special Revenue Funds	0	423,078
Debt Service Funds	0	260,593
Capital Projects Funds	<u>0</u>	<u>141,650</u>
<i>Total Fund Balances</i>	<u>4,657,272</u>	<u>916,092</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$ 13,776,204</u></u>	<u><u>\$ 1,909,091</u></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, 2006

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Total Governmental Funds	Total Governmental Fund Balances	5,573,364
	Amounts reported for governmental activities in the statement of net assets are different because:	
<p>\$ 6,814,268</p> <p style="padding-left: 20px;">20,938</p> <p style="padding-left: 20px;">80,809</p> <p style="padding-left: 20px;">12,013</p> <p style="padding-left: 20px;">6,097</p> <p style="padding-left: 20px;">282,577</p> <p style="padding-left: 20px;">27,979</p> <p style="padding-left: 20px;">8,440,614</p> <hr/> <p>\$ 15,685,295</p> <hr/> <hr/>	<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> <p style="text-align: right;">12,593,661</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</p> <p style="text-align: right;">17,769</p> <p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p> <p style="text-align: right;">(13,619)</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</p> <p style="text-align: right;">(27,072)</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 (908,469)</p> <p style="padding-left: 40px;">General Obligation Bonds <u>(2,940,000)</u></p> <p style="padding-left: 40px;">Total</p> <p style="text-align: right;">(3,848,469)</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.</p> <p style="text-align: right;"><u>258,165</u></p>	<p style="text-align: right;"><u>\$14,553,799</u></p>
<p style="padding-left: 20px;">271,773</p> <p style="padding-left: 20px;">300,055</p> <p style="padding-left: 20px;">4,176,215</p> <p style="padding-left: 20px;">423,078</p> <p style="padding-left: 20px;">260,593</p> <p style="padding-left: 20px;">141,650</p> <hr/> <p>5,573,364</p> <hr/> <hr/> <p>\$ 15,685,295</p>	Net Assets of Governmental Activities	<hr/> <hr/>

East Holmes Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General Fund	Other Governmental Funds
REVENUES:		
Property and Other Local Taxes	\$ 7,821,884	\$ 689,368
Intergovernmental	5,427,087	2,465,564
Interest	309,987	1,022
Tuition and Fees	494,588	13,954
Rent	14,115	0
Extracurricular Activities	0	309,521
Gifts and Donations	80,000	4,134
Customer Sales and Services	0	367,977
Miscellaneous	104,322	52,583
<i>Total Revenues</i>	<u>14,251,983</u>	<u>3,904,123</u>
EXPENDITURES:		
Current:		
Instruction:		
Regular	6,872,108	352,648
Special	675,208	1,276,885
Vocational	455,936	0
Support Services:		
Pupils	415,411	341,180
Instructional Staff	599,418	403,868
Board of Education	25,094	0
Administration	1,419,699	126,901
Fiscal	392,754	16,182
Operation and Maintenance of Plant	1,312,486	4,855
Pupil Transportation	1,060,815	17,883
Central	95,119	13,384
Operation of Non-Instructional Services:		
Food Service Operations	0	689,553
Extracurricular Activities	144,549	171,954
Capital Outlay	201,892	298,420
Debt Service:		
Principal	0	290,000
Interest	0	170,624
<i>Total Expenditures</i>	<u>13,670,489</u>	<u>4,174,337</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>581,494</u>	<u>(270,214)</u>
OTHER FINANCING SOURCES		
Proceeds from Sale of Capital Assets	1,020	0
<i>Total Other Financing Sources</i>	<u>1,020</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	582,514	(270,214)
<i>Fund Balance at Beginning of Year</i>	4,074,758	1,186,306
<i>Fund Balance at End of Year</i>	<u>\$ 4,657,272</u>	<u>\$ 916,092</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, 2006

Total Governmental Funds	Net Changes in Fund Balances - Total Governmental Funds	\$ 312,300
\$ 8,511,252	Amounts reported for governmental activities in the statement of activities are different because	
7,892,651	Governmental funds report capital outlays as expenditures.	
311,009	However, in the statement of activities, the cost of those assets	
508,542	is allocated over their estimated useful lives as depreciation	
14,115	expense. This is the amount by which capital outlay exceeds	
309,521	depreciation in the current period.	
84,134	Capital Outlays	955,201
367,977	Loss on Capital Assets	(2,050)
156,905	Depreciation	(695,505)
18,156,106	Total	257,646
7,224,756	Revenues in the statement of activities that do not provide	
1,952,093	current financial resources are not reported as revenue	
455,936	in the funds.	
756,591	Taxes	(759)
1,003,286	Repayment of bonds payable is an	
25,094	expenditure in the governmental funds, but the	
1,546,600	repayment reduces long-term liabilities in the	
408,936	statement of net assets.	
1,317,341	Bonds Payable	290,000
1,078,698	Total	290,000
108,503	In the statement of activities, interest is accrued on	
689,553	outstanding bonds, whereas in governmental funds,	
316,503	an interest expenditure is reported when due.	
500,312	(1,200)	
290,000	Some expenses reported in the statement of activities,	
170,624	such as compensated absences and intergovernmental	
17,844,826	payables which represent contractually required pension	
311,280	contributions, do not require the use of current financial	
1,020	resources and therefore are not reported as expenditures	
1,020	Pension Contributions	(124,405)
312,300	Vacation Payable	27,072
5,261,064	Compensated Absences	56,406
\$ 5,573,364	Total	(40,927)
	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.	
		(31,148)
	Change in Net Assets of Governmental Activities	\$ 785,912

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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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Property and Other Local Taxes	\$ 7,775,000	\$ 7,615,000	\$ 7,597,195	\$ (17,805)
Intergovernmental	5,387,500	5,517,500	5,469,631	(47,869)
Interest	150,000	310,000	304,974	(5,026)
Tuition and Fees	466,000	503,500	494,588	(8,912)
Rent	17,500	17,500	14,115	(3,385)
Gifts and Donations	0	80,000	80,000	-
Miscellaneous	135,000	127,500	105,554	(21,946)
Total Revenues	<u>13,931,000</u>	<u>14,171,000</u>	<u>14,066,057</u>	<u>(104,943)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,075,358	7,043,802	6,856,660	187,142
Special	986,338	787,694	683,821	103,873
Vocational	474,166	474,166	450,161	24,005
Other	0	0	0	-
Support Services:				
Pupils	326,286	442,786	427,606	15,180
Instructional Staff	641,808	631,020	580,971	50,049
Board of Education	40,850	40,850	33,977	6,873
Administration	1,338,544	1,414,819	1,343,268	71,551
Fiscal	419,039	439,039	403,370	35,669
Operation and Maintenance of Plant	1,435,267	1,441,217	1,361,144	80,073
Pupil Transportation	1,041,949	1,096,624	1,040,652	55,972
Central	102,666	102,416	95,815	6,601
Extracurricular Activities	151,116	151,366	141,784	9,582
Capital Outlay	291,403	285,453	272,583	12,870
Total Expenditures	<u>14,324,790</u>	<u>14,351,252</u>	<u>13,691,812</u>	<u>659,440</u>
Excess of Revenues Over (Under) Expenditures	<u>(393,790)</u>	<u>(180,252)</u>	<u>374,245</u>	<u>554,497</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Fixed Assets	10,000	10,000	1,020	(8,980)
Transfers Out	(100,000)	(50,000)	0	50,000
Total Other Financing Sources and Uses	<u>(90,000)</u>	<u>(40,000)</u>	<u>1,020</u>	<u>41,020</u>
Net Change in Fund Balances	(483,790)	(220,252)	375,265	595,517
Fund Balance at Beginning of Year	5,038,577	5,038,577	5,038,577	0
Prior Year Encumbrances Appropriated	155,949	155,949	155,949	0
Fund Balance at End of Year	<u>\$ 4,710,736</u>	<u>\$ 4,974,274</u>	<u>\$ 5,569,791</u>	<u>\$ 595,517</u>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2006

	<u>Self-Insurance Fund</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 323,994
<i>Total Assets</i>	<u>323,994</u>
LIABILITIES:	
Claims Payable	<u>65,829</u>
NET ASSETS:	
Unrestricted	<u>\$ 258,165</u>

See accompanying notes to the basic financial statements

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, 2006

	Self-Insurance Fund
OPERATING REVENUES:	
Charges for Services	\$ 1,450,938
OPERATING EXPENSES:	
Purchased Services	180,734
Claims	1,301,352
<i>Total Operating Expenses</i>	<i>1,482,086</i>
<i>Net Change in Net Assets</i>	<i>(31,148)</i>
<i>Net Assets at Beginning of Year</i>	<i>289,313</i>
<i>Net Assets at End of Year</i>	<i>\$ 258,165</i>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Self-Insurance Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$ 1,450,938
Cash Payments for Claims	(1,337,474)
Cash Payments for Goods and Services	(180,734)
<i>Net Cash Used in Operating Activities</i>	(67,270)
<i>Cash and Cash Equivalents Beginning of Year</i>	391,264
<i>Cash and Cash Equivalents End of Year</i>	\$ 323,994
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$ (31,148)
Increase in Assets:	
Accounts Receivable	24,473
Decrease in Liabilities:	
Claims Payable	(60,595)
<i>Net Cash Used in Operating Activities</i>	\$ (67,270)

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2006

ASSETS:

Equity in Pooled Cash and Cash Equivalents	\$ 19,245
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<i>Total Assets</i>	<u>\$ 19,245</u>
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LIABILITIES:

Accounts Payable	\$ 300
Undistributed Monies	6,107
Due to Students	<u>12,838</u>

<i>Total Liabilities</i>	<u>\$ 19,245</u>
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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, 2006

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, 2005 was 1,903. The School District employed 167 certificated employees and 93 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 15.

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, 2006 (Continued)

A. *BASIS OF PRESENTATION*

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund 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.

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:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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.

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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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.

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 2006.

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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 2006, 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, 2006. 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 2006 amounted to \$309,987, which includes \$43,060 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.

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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:

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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 2006, the retirement benefits of \$85,183 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.

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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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.

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 2006.

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).

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

- 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.

Net Change in Fund Balance

	<u>General Fund</u>
GAAP Basis	\$ 582,514
Net Adjustments:	
Revenue Accruals	(185,926)
Expenditure Accruals	276,580
Encumbrances	<u>(297,903)</u>
Budget Basis	<u>\$ 375,265</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 \$323,994. 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 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, 2006 (Continued)

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, 2006, the carrying amount of the East Holmes Local School District deposits was \$5,806,703. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$7,164,517 of the District's bank balance of \$7,493,418 was exposed to custodial risk as discussed below, while \$328,901 was covered by Federal Deposit Insurance Corporation.

C. INVESTMENTS

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$1,686,715	\$1,686,715

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, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	\$1,686,715	100.0%

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006
(Continued)

NOTE 5 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital Assets, not being Depreciated:				
Land	\$ 914,770	\$ 37,871	\$ 0	\$ 952,641
Construction in Progress	<u>0</u>	<u>132,356</u>	<u>0</u>	<u>132,356</u>
Total Capital Assets, not being Depreciated	914,770	170,227	0	1,084,997
Capital Assets, being Depreciated:				
Land Improvements	743,958	466,613	(18,936)	1,191,635
Buildings & Building Improvements	15,373,135	53,372	0	15,426,507
Furniture, Fixtures & Equipment	1,416,522	139,350	(16,889)	1,538,983
Vehicles	<u>1,414,926</u>	<u>125,639</u>	<u>(90,000)</u>	<u>1,450,565</u>
Total Capital Assets, being Depreciated	18,948,541	784,974	(125,825)	19,607,690
Less Accumulated Depreciation:				
Land Improvements	(250,658)	(64,187)	18,936	(295,909)
Buildings & Building Improvements	(5,665,209)	(424,237)	0	(6,089,446)
Furniture, Fixtures & Equipment	(864,805)	(79,788)	9,539	(935,054)
Vehicles	<u>(746,624)</u>	<u>(127,293)</u>	<u>95,300</u>	<u>(778,617)</u>
Total Accumulated Depreciation	(7,527,296)	(695,505)	123,775	(8,099,026)
Total Capital Assets being Depreciated, net	<u>11,421,245</u>	<u>89,469</u>	<u>(2,050)</u>	<u>11,508,664</u>
Governmental Activities Capital Assets, Net	<u>\$12,336,015</u>	<u>\$ 259,696</u>	<u>\$ (2,050)</u>	<u>\$12,593,661</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 274,719
Special	29,993
Vocational	13,030
Support Services:	
Pupils	3,765
Instructional Staff	34,117
Administration	24,821
Fiscal Services	2,414
Operation and Maintenance of Plant	31,782
Pupil Transportation	122,555
Food Services	32,151
Extracurricular Activities	<u>126,158</u>
Total Depreciation Expense	<u>\$ 695,505</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006
(Continued)

NOTE 6 RECEIVABLES

Receivables at June 30, 2006, 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	\$ 1,346
Transportation Agreement	9,742
Lunchroom Reimbursement	20,489
Grants	<u>251,000</u>
 Total Intergovernmental Receivables	 <u>\$282,577</u>

NOTE 7 GENERAL LONG-TERM OBLIGATIONS

	<u>Outstanding July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2006</u>	<u>Amounts Due In One Year</u>
Compensated Absences Payable	\$742,331	\$201,398	\$ 35,260	\$908,469	\$ 35,260
Bonds Payable (6.65%-7.70%)	<u>3,230,000</u>	<u>0</u>	<u>290,000</u>	<u>2,940,000</u>	<u>290,000</u>
	<u>\$3,972,331</u>	<u>\$201,398</u>	<u>\$325,260</u>	<u>\$3,848,469</u>	<u>\$325,260</u>

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

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, 2006
(Continued)

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2006, including interest payments of \$1,301,946, are as follows:

Year Ending June 30,	<u>1999</u> <u>Principal</u>	<u>Refunding</u> <u>Interest</u>	<u>2001</u> <u>Principal</u>	<u>Hiland</u> <u>Interest</u>
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	0	0	145,000	116,530
2012-2016	0	0	845,000	457,728
2017-2021	<u>0</u>	<u>0</u>	<u>1,095,000</u>	<u>175,328</u>
Total	<u>\$335,000</u>	<u>\$ 16,872</u>	<u>\$2,605,000</u>	<u>\$1,285,074</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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2006, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 2006 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, 2006 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, 2006 was \$276,584 in the general fund, \$15,785 in the debt service fund, and \$7,986 in the capital projects fund. 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.

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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$302,948,030	80.77%	\$314,989,980	81.40%
Public Utility Personal	6,399,940	1.70%	6,204,200	1.60%
Tangible Personal Property	<u>65,733,709</u>	<u>17.53%</u>	<u>65,763,956</u>	<u>17.00%</u>
Total Valuation	<u>\$375,081,679</u>	<u>100.00%</u>	<u>\$386,956,136</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed valuation	\$23.33		\$23.28	

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 \$250 per incident on equipment. All vehicles are insured by Nationwide Insurance and have a \$100 deductible on comprehensive claims and \$500 deductible for collisions. 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 \$1,930,627 in the aggregate, per year.

The claims liability of \$65,829 reported in the fund at June 30, 2006, 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, 2006	\$126,424	\$1,301,352	\$1,361,947	\$ 65,829
June 30, 2005	\$134,267	\$1,492,115	\$1,499,958	\$ 126,424

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 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, Suite 100, Columbus, Ohio 43215-3476, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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, 2006, 2005 and 2004 were \$241,828, \$229,116 and \$180,605, respectively; 52.6 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

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, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 percent 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 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

For the fiscal year ended June 30, 2006, 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. For the fiscal year 2005, the portion used to fund pension obligations was 13 percent. 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, 2006, 2005 and 2004 were \$1,020,445, \$942,149, and \$900,746, respectively; 82.4 percent has been contributed for fiscal year 2006, and 100 percent for the fiscal year 2005 and 2004. Contributions to the DC and combined plans for fiscal year 2006 were \$10,347 made by the school district and \$23,553 made by the plan members.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

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 DB 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, 2006, 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 \$79,292 during fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2006 (Continued)

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll from the fiscal year ended June 30, 2005. 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 employers SERS salaries. For fiscal year 2006, the minimum pay was established at \$35,800. For the District, the amount to fund healthcare benefits, including surcharge, equaled \$115,930 during the 2006 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. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113 and the target level was \$267.5 million. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive 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 \$81,639.

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, 2006.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006
(Continued)

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 the fiscal year ended June 30, 2006, the reserve activity (GAAP basis) was as follows:

	<u>Textbook Reserve</u>	<u>Maintenance Reserve</u>	<u>Total</u>
Balance, June 30, 2005	\$ (179,097)	\$ 0	\$ (179,097)
Required Set-Aside	274,437	274,437	548,874
Offset	0	(229,321)	(229,321)
Qualifying Expenditures	<u>(206,772)</u>	<u>(119,199)</u>	<u>(325,971)</u>
Balance, June 30, 2006	<u>\$ (111,432)</u>	<u>\$ (74,083)</u>	<u>\$(185,515)</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.

NOTE 15 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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006
(Continued)

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.

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	PASS THROUGH ENTITY NUMBER	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>(Passed Through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	C1-S1-05 C1-S1-06	84.010	\$75,000 <u>1,121,632</u>		\$228,126 <u>1,133,830</u>	
Total Title I Grants to Local Educational Agencies			1,196,632		1,361,956	
Special Education - Grants to States	6B-SF-2005 6B-SF-2006	84.027	42,840 <u>354,023</u>		39,031 <u>341,733</u>	
Total Special Education - Grants to States			396,863		380,764	
Safe and Drug Free Schools and Communities State Grant	DR-S1-2005 DR-S1-2006	84.186	<u>31,495</u>		1,393 <u>30,425</u>	
Total Safe and Drug Free Schools and Communities State Grant			31,495		31,818	
Innovative Education Program Strategies	C2-S1-2005 C2-S1-2006	84.298	<u>5,013</u>		234 <u>5,013</u>	
Total Innovative Education Program Strategies			5,013		5,247	
Education Technology State Grants	TJ-S1-2005 TJ-S1-2006	84.318	<u>23,394</u>		4,976 <u>18,771</u>	
Total Education Technology State Grants			23,394		23,747	
English Language Acquisition Grant	T3-S1-2005 T3-S1-2006	84.365	62,700 <u>157,262</u>		30,535 <u>188,878</u>	
Total English Language Acquisition Grant			219,962		219,413	
Improving Teacher Quality State Grant	TR-S1-2005 TR-S1-2006	84.367	20,600 <u>215,113</u>		40,959 <u>199,878</u>	
Total Improving Teacher Quality State Grant			235,713		240,837	
Total U.S. Department of Education			2,109,072		2,263,782	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>(Passed Through Ohio Department of Education)</i>						
Food Donation	N/A	10.550		\$81,639		\$81,639
National School Lunch Program	N/A	10.555	<u>177,950</u>		<u>177,950</u>	
Total U.S. Department of Agriculture			177,950	81,639	177,950	81,639
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>(Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	N/A	93.778	11,652		11,652	
State Children's Insurance Program	N/A	93.767	<u>5,032</u>		<u>5,032</u>	
Total U.S. Department of Health and Human Services			16,684		16,684	
Total			<u>\$2,303,706</u>	<u>\$81,639</u>	<u>\$2,458,416</u>	<u>\$81,639</u>

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

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

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 - FOOD DONATION PROGRAM

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – MEDICAL ASSISTANCE PROGRAM

Cash receipts from the U.S. Department of Health and Human Services for the Medical Assistance Program are commingled with local funds. It is assumed federal monies are expended first.



Mary Taylor, CPA

Auditor of State

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, the General 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 12, 2007. 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 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 February 12, 2007, 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 February 12, 2007, we reported other matters related to noncompliance we deemed immaterial.

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 the 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 12, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS 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 School 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 its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. 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 its major federal program for the year ended June 30, 2006.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 12, 2007

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

**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.



Mary Taylor, CPA
Auditor of State

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
MARCH 29, 2007**