

**West Holmes
Local School District**

Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
West Holmes Local School District
28 W. Jackson St.
Millersburg, Ohio 44654

We have reviewed the *Independent Auditor's Report* of the West Holmes Local School District, Holmes County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The West Holmes Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 27, 2007

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WEST HOLMES LOCAL SCHOOL DISTRICT

Table of Contents

	<i>Page</i>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of Changes in Fund Balances of Governmental Funds to Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	17
Statement of Fund Net Assets – Proprietary Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	19
Statement of Cash Flows – Proprietary Fund	20
Statement of Fiduciary Assets and Liabilities – Agency Fund	21
Notes to the Basic Financial Statements	22

WEST HOLMES LOCAL SCHOOL DISTRICT

Table of Contents

Independent Auditor’s Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	48
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance In Accordance with OMB Circular A-133	50
Schedule of Expenditures of Federal Awards – Cash Basis.....	52
Schedule of Findings and Questioned Costs OMB A-133.....	53

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 20, 2006

The Board of Education
West Holmes Local School District
Millersburg, OH

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Holmes Local School District as of and for the year ended June 30, 2006, which collectively comprise West Holmes Local School District 's basic financial statements as listed in the table of contents. These financial statements are the responsibility of West Holmes Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of West Holmes Local School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2006 on our consideration of West Holmes Local School 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kea & Associates, Inc.

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

The discussion and analysis of the West 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 performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Revenues accounted for \$20,275,975 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$4,439,803 or 18 percent of total revenues of \$24,715,778.
- Total program expenses were \$24,267,593.
- In total, net assets increased \$448,185, which represents a 3 percent increase from 2005.
- Outstanding debt decreased from \$14,087,479 to \$13,437,428 through the payment of bond principal.

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

A question typically asked about the School District's finances, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

In the *Statement of Net Assets* and the *Statement of Activities*, Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and non instructional services, i.e., food service operations.

The government-wide financial statements begin on page 11.

Reporting the School District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general 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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and bond retirement fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 13.

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

Proprietary Funds - The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominantly benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements.

The proprietary fund financial statements begin on page 18.

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. The accounting for the fiduciary funds is much like that used to proprietary funds.

The fiduciary fund financial statements begin on page 21.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1
Net Assets
Governmental Activities

	<u>2006</u>	<u>Restated 2005</u>
Assets		
Current and Other Assets	\$ 18,624,420	\$ 18,966,487
Capital Assets	<u>24,591,217</u>	<u>25,218,669</u>
Total Assets	<u>43,215,637</u>	<u>44,185,156</u>
Liabilities		
Long-Term Liabilities	15,866,667	16,575,224
Other Liabilities	<u>11,386,895</u>	<u>12,096,042</u>
Total Liabilities	<u>27,253,562</u>	<u>28,671,266</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	11,100,204	10,942,267
Restricted	858,390	1,069,616
Unrestricted (Deficit)	<u>4,003,481</u>	<u>3,502,007</u>
Total Net Assets	<u>\$ 15,962,075</u>	<u>\$ 15,513,890</u>

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

Total assets decreased by \$969,519. This is primarily a result of a decrease in capital assets due to depreciation expense exceeding current year additions. The net assets of the School District's governmental activities increased \$448,185.

Table 2 shows the changes in net assets for fiscal year 2006 and 2005. This will enable the reader to draw further conclusions about the School District's financial status and possibly project future problems.

Table 2
Change in Net Assets
Governmental Activities

	2006	Restated 2005
<i>Revenues</i>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,237,633	\$ 1,234,666
Operating Grants	3,180,612	2,571,819
Capital Grants	21,558	27,600
<i>General Revenues:</i>		
Property Taxes	8,622,182	8,333,154
Grants and Entitlements	11,249,681	12,215,750
Investment Earnings and Miscellaneous	404,112	327,599
<i>Total Revenues</i>	24,715,778	24,710,588
 <i>Program Expenses</i>		
Instruction	14,231,228	14,417,782
Support Services	7,657,751	7,564,473
Operation of Non-Instructional	1,073,422	900,461
Extracurricular Activities	549,152	561,733
Interest and Fiscal Charges	756,040	492,184
<i>Total Expenses</i>	24,267,593	23,936,633
Increase in Net Assets	\$ 448,185	\$ 773,955

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2006 and 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

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

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2006	Restated 2005	2006	Restated 2005
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 14,231,228	\$ 14,417,782	\$ (11,515,996)	\$ (12,308,110)
Support Services:				
Pupil and Instructional Staff	1,508,612	1,546,330	(1,197,408)	(1,185,585)
Board of Education, Administration, Fiscal and Business	2,346,718	2,709,032	(2,206,996)	(2,499,307)
Operation and Maintenance of				
Plant and Central	2,114,731	1,967,631	(2,088,131)	(1,967,631)
Pupil Transportation	1,687,690	1,341,480	(1,666,132)	(1,341,480)
Operation of Non-Instructional Extracurricular Activities	1,073,422	900,461	(117,399)	9,078
Interest and Fiscal Charges	549,152	561,733	(279,688)	(317,329)
	756,040	492,184	(756,040)	(492,184)
Total	\$ 24,267,593	\$ 23,936,633	\$ (19,827,790)	\$ (20,102,548)

Instruction and student support services comprise 65 percent of governmental program expenses. Interest was 3 percent. Interest expense was attributable to the outstanding bonds. Pupil transportation and the operation/maintenance of facilities accounts for 16 percent of governmental program expenses.

The dependence upon tax revenues and general revenue entitlements from the State for governmental activities is apparent.

Governmental Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting.

All governmental funds had total revenues of \$24,747,161 and expenditures of \$25,073,689 for fiscal year 2006.

General Fund

The School District's general fund balance decreased \$262,032. The decrease in fund balance can be attributed to expenditures increasing faster than revenues.

Bond Retirement Fund

The School District's bond retirement fund balance decreased \$223,130. The decrease in fund balance can be attributed to expenditures increasing faster than revenues.

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

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the School District did modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue of \$19,701,462 was \$1,466,942 over the original budget estimate of \$18,234,520. This was primarily due to an increase in intergovernmental revenue. Final appropriations of \$20,789,999 were \$16,353 more than the \$20,773,646 in the original appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$24,591,217 invested in land, buildings, equipment, vehicles and infrastructure. Table 4 shows fiscal year 2006 balances compared with 2005 as restated.

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

	2006	Restated 2005
Land	\$ 643,088	\$ 643,088
Buildings and Improvements	22,875,784	23,453,314
Furniture and Equipment	431,767	394,085
Vehicles	638,094	725,384
Infrastructure	2,484	2,798
Totals	\$ 24,591,217	\$ 25,218,669

The \$627,452 decrease in capital assets was attributable to current year depreciation expense exceeding current year purchases. See Note 9 for additional information.

Set-asides

Senate Bill 345 requires the School District to set aside \$155.07 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2006, this amounted to \$420,103 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for both set asides.

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

Debt

At June 30, 2006, the School District had \$13,437,428 in bonds outstanding with \$615,000 due within one year. During fiscal year 2006, \$750,000 of general obligation bonds were retired and \$99,949 of interest accreted on capital appreciation bonds. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt, at June 30
Governmental Activities

	2006	2005
General Obligation Bonds:		
1997 School Improvement Bonds	\$ 480,000	\$ 940,000
2005 School Improvement Refunding Bonds:		
Serial and Term Bonds	12,720,000	13,010,000
Capital Appreciation Bonds	237,428	137,479
Total	\$ 13,437,428	\$ 14,087,479

In 1996, the residents of the West Holmes Local School District passed a bond issue providing \$16,149,935 for the purpose of constructing a new High School and classroom additions to four of the existing elementary schools. In March of 2005, the School District refinanced the outstanding bonds issued in 1997 for a savings of \$948,518 to maturity, which remains at 12/1/2023. See Note 13 for additional information.

Current Issues

The West Holmes Local School District has always received strong support from the residents of the School District. The School District asked the voters in 1994 for additional operating revenue. This has been the only additional operating levy since 1978. The School District asked taxpayers in November, 2005 for an additional 4.5 mill levy for operating expenses but was defeated. The Board of Education put a 2nd levy attempt for operating dollars on the May 2006 ballot for 4.61 mills, to generate \$1,400,000, but failed by 157 votes. As a result of the failed levy, the Board and Administration implemented over \$1,000,000 in cuts, resulting in a reduction of over 20 positions in the School District as well as the loss of several supplemental and coaching positions. The School District had a renewal levy that passed in November of 2006 generating \$422,562 (1.43 mills). The School District has also increased its revenue sources for next fiscal year, 2007, by implementing a “pay-to-participate” policy.

The School District receives 55.75 percent of its General Fund revenue from State and Federal sources and 44.25 percent from local sources. With the School District so dependent on State revenue, the State Legislation’s decision regarding what kind of school funding system will be put into affect for the future is very important to the School District.

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

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth, which allows the School District to receive Parity Aid. Following the passage of House Bill 66 and the changes in the funding of parity aid, it is now funded at the maximum level to the West Holmes Local School District. The School District was put on the state guarantee in Fiscal Year 2006 which simply means the district will be funded at the same level as the prior year, resulting in no increase to the School District's main revenue source.

The School District has planned expenses since the last levy. This has become more difficult with the many mandates and rising utility costs, increased special education services required for our students, and significant increases in health insurance. The changes in the health care plan effective for Fiscal Year 2005 improved the School District's financial position in terms of employee benefits. The School District had a 10 percent increase in premiums for Fiscal Year 2006 and after having one of the best year's the School District has seen for a while, were quoted a 1 percent increase by Aultcare for Fiscal Year 2007.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The School District is very fortunate to receive the federal dollars to put toward the necessary programs in order to address student achievement as required by the Ohio Department of Education and the Federal Department of Education. These dollars are given to the School District but are earmarked towards student intervention and improvement of programs for the students. Federal law does not allow the School District to use these dollars for existing general fund expenditures. These dollars have led to the improvement of the School District's report card rating and performance index scores. The School District went from a performance index of 81.3 in 2002-2003 to 96.4 in 2005-2006.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Jamie Zeigler, Treasurer of West Holmes Local School District, 28 West Jackson Street, Millersburg, Ohio 44654.

West Holmes Local School District

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 9,271,603
Cash and Cash Equivalents With Fiscal Agent	293
Receivables:	
Taxes	8,878,358
Accounts	36,710
Accrued Interest	45,789
Intergovernmental	82,652
Inventory Held For Resale	32,585
Materials and Supplies	83,157
Deferred Charges	193,273
Nondepreciable Capital Assets	643,088
Depreciable Capital Assets (Net)	<u>23,948,129</u>
<i>Total Assets</i>	<u>43,215,637</u>
Liabilities	
Accounts Payable	72,874
Accrued Wages and Benefits	2,164,799
Accrued Vacation Payable	253,834
Intergovernmental Payable	601,324
Unearned Revenue	8,078,362
Matured Interest Payable	293
Accrued Interest Payable	44,075
Claims Payable	171,334
Long Term Liabilities:	
Due Within One Year	662,099
Due In More Than One Year	<u>15,204,568</u>
<i>Total Liabilities</i>	<u>27,253,562</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,100,204
Restricted for:	
Capital Projects	714,063
Debt Service	82,368
Other Purposes	61,959
Unrestricted	<u>4,003,481</u>
<i>Total Net Assets</i>	<u>\$ 15,962,075</u>

See accompanying notes to the basic financial statements.

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

	Program Revenues				Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 10,873,220	\$ 435,751	\$ 235,124	\$ 0	\$ (10,202,345)
Special	2,836,463	0	1,955,607	0	(880,856)
Vocational	521,545	0	88,750	0	(432,795)
Support Services:					
Pupils	898,206	0	137,839	0	(760,367)
Instructional Staff	610,406	0	173,365	0	(437,041)
Board of Education	58,768	0	0	0	(58,768)
Administration	1,883,014	0	130,124	0	(1,752,890)
Fiscal	394,037	0	9,598	0	(384,439)
Business	10,899	0	0	0	(10,899)
Operation and Maintenance of Plant	2,006,194	0	0	0	(2,006,194)
Pupil Transportation	1,687,690	0	0	21,558	(1,666,132)
Central	108,537	0	26,600	0	(81,937)
Operation of Non-Instructional Services:					
Food Service Operations	1,024,814	548,575	405,913	0	(70,326)
Community Services	48,608	0	1,535	0	(47,073)
Extracurricular Activities	549,152	253,307	16,157	0	(279,688)
Interest and Fiscal Charges	756,040	0	0	0	(756,040)
Total Governmental Activities	\$ 24,267,593	\$ 1,237,633	\$ 3,180,612	\$ 21,558	(19,827,790)
General Revenues					
Property Taxes Levied for:					
General Purposes					7,109,362
Debt Service					1,068,438
Capital Outlay					444,382
Grants and Entitlements not Restricted to Specific Programs					11,249,681
Investment Earnings					330,269
Miscellaneous					73,843
Total General Revenues					20,275,975
Change in Net Assets					448,185
Net Assets Beginning of Year - Restated (See Note 3)					15,513,890
Net Assets End of Year					\$ 15,962,075

See accompanying notes to the basic financial statements.

West Holmes Local School District

Balance Sheet

Governmental Funds

June 30, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 6,051,016	\$ 975,244	\$ 1,209,963	\$ 8,236,223
Cash and Cash Equivalents With Fiscal Agents	0	293	0	293
Receivables:				
Taxes	7,334,561	1,098,152	445,645	8,878,358
Accounts	36,286	0	424	36,710
Interfund	18,027	0	0	18,027
Accrued Interest	45,789	0	0	45,789
Intergovernmental	85	0	82,567	82,652
Inventory Held For Resale	0	0	32,585	32,585
Materials and Supplies	77,876	0	5,281	83,157
Advances to Other Funds	550,000	0	0	550,000
<i>Total Assets</i>	<u>\$ 14,113,640</u>	<u>\$ 2,073,689</u>	<u>\$ 1,776,465</u>	<u>\$ 17,963,794</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 41,421	\$ 0	\$ 31,453	\$ 72,874
Accrued Wages and Benefits	1,915,366	0	249,433	2,164,799
Interfund Payable	0	0	18,027	18,027
Intergovernmental Payable	519,040	0	82,284	601,324
Matured Interest Payable	0	293	0	293
Deferred Revenue	6,805,285	1,018,955	413,660	8,237,900
<i>Total Liabilities</i>	<u>9,281,112</u>	<u>1,019,248</u>	<u>794,857</u>	<u>11,095,217</u>
Fund Balances				
Reserved for Encumbrances	252,505	0	121,683	374,188
Reserved for Property Taxes	529,276	79,197	31,985	640,458
Reserved for Advances	550,000	0	0	550,000
Unreserved: Undesignated, Reported in:				
General Fund	3,500,747	0	0	3,500,747
Special Revenue Funds	0	0	206,276	206,276
Debt Service Fund	0	975,244	0	975,244
Capital Projects Funds	0	0	621,664	621,664
<i>Total Fund Balances</i>	<u>4,832,528</u>	<u>1,054,441</u>	<u>981,608</u>	<u>6,868,577</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 14,113,640</u>	<u>\$ 2,073,689</u>	<u>\$ 1,776,465</u>	<u>\$ 17,963,794</u>

See accompanying notes to the basic financial statements.

West Holmes Local School District
*Reconciliation of Total Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances	\$	6,868,577
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		24,591,217
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Delinquent property taxes are not available to pay for current-period expenditures and therefore are deferred in the funds.		159,538
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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.		314,046
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In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		193,273
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In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is not recorded.		(44,075)
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Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:

Accrued Vacation Payable	\$(253,834)	
Compensated Absences	(2,049,939)	
General Obligation Bonds	(13,200,000)	
Capital Appreciation Bonds	(104,986)	
Accretion on Capital Appreciation Bonds	(132,442)	
Refunding Loss	754,440	
Unamortized Bond Premium	(947,726)	
Capital Leases Payable	(186,014)	(16,120,501)

Net Assets of Governmental Activities	\$	<u>15,962,075</u>
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See accompanying notes to the basic financial statements.

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

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 7,134,999	\$ 1,072,463	\$ 446,103	\$ 8,653,565
Intergovernmental	11,825,470	120,320	2,486,195	14,431,985
Investment Income	329,639	0	630	330,269
Tuition and Fees	435,751	0	1,103	436,854
Extracurricular Activities	0	0	245,771	245,771
Rentals	4,454	0	1,979	6,433
Charges for Services	0	0	548,575	548,575
Contributions and Donations	0	0	19,866	19,866
Miscellaneous	51,586	0	22,257	73,843
<i>Total Revenues</i>	<u>19,781,899</u>	<u>1,192,783</u>	<u>3,772,479</u>	<u>24,747,161</u>
Expenditures				
Current:				
Instruction:				
Regular	10,496,154	0	231,833	10,727,987
Special	1,681,809	0	1,264,506	2,946,315
Vocational	510,781	0	0	510,781
Support Services:				
Pupils	767,387	0	161,468	928,855
Instructional Staff	462,294	0	192,053	654,347
Board of Education	58,768	0	0	58,768
Administration	1,784,115	0	171,562	1,955,677
Fiscal	342,640	24,757	17,422	384,819
Business	435	0	0	435
Operation and Maintenance of Plant	2,004,178	0	21,772	2,025,950
Pupil Transportation	1,575,524	0	0	1,575,524
Central	65,362	0	26,600	91,962
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,020,292	1,020,292
Community Services	45,715	0	1,535	47,250
Extracurricular Activities	196,669	0	238,682	435,351
Capital Outlay	0	0	267,896	267,896
Debt service:				
Principal Retirement	35,388	750,000	0	785,388
Interest and Fiscal Charges	14,936	641,156	0	656,092
<i>Total Expenditures</i>	<u>20,042,155</u>	<u>1,415,913</u>	<u>3,615,621</u>	<u>25,073,689</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(260,256)</u>	<u>(223,130)</u>	<u>156,858</u>	<u>(326,528)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	1,776	1,776
Transfers Out	(1,776)	0	0	(1,776)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,776)</u>	<u>0</u>	<u>1,776</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(262,032)	(223,130)	158,634	(326,528)
<i>Fund Balance Beginning of Year</i>	<u>5,094,560</u>	<u>1,277,571</u>	<u>822,974</u>	<u>7,195,105</u>
<i>Fund Balance End of Year</i>	<u>\$ 4,832,528</u>	<u>\$ 1,054,441</u>	<u>\$ 981,608</u>	<u>\$ 6,868,577</u>

See accompanying notes to the basic financial statements.

West Holmes Local School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	(326,528)
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Asset Additions	\$ 267,896	
Current Year Depreciation	<u>(890,061)</u>	(622,165)

Net effect of transactions involving sale of capital assets are not reflected in the funds		(5,287)
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Delinquent property taxes in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(31,383)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond Principal	750,000	
Capital Leases	<u>35,388</u>	785,388

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

Bond Premium	(53,394)	
Accrued Vacation Payable	(45,194)	
Compensated Absences	12,229	
Bond Issuance Costs	10,889	
Refunding Loss	42,504	
Bond Accretion	<u>(99,948)</u>	(132,914)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

		<u>781,074</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>448,185</u></u>
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See accompanying notes to the basic financial statements.

West Holmes Local School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual*
 General Fund
 For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 7,290,762	\$ 7,007,762	\$ 6,923,828	\$ (83,934)
Intergovernmental	10,257,771	11,888,832	11,848,657	(40,175)
Investment Income	276,394	330,000	319,260	(10,740)
Tuition and Fees	377,257	436,429	435,766	(663)
Rentals	3,856	4,454	4,454	0
Miscellaneous	28,480	33,985	32,897	(1,088)
<i>Total Revenues</i>	<u>18,234,520</u>	<u>19,701,462</u>	<u>19,564,862</u>	<u>(136,600)</u>
Expenditures				
Current:				
Instruction:				
Regular	10,745,986	10,754,445	10,575,188	179,257
Special	1,714,140	1,715,489	1,686,895	28,594
Vocational	527,478	527,893	519,094	8,799
Support Services				
Pupils	813,569	814,209	800,638	13,571
Instructional Staff	500,251	500,645	492,300	8,345
Board of Education	86,450	86,518	85,076	1,442
Administration	1,841,753	1,843,203	1,812,480	30,723
Fiscal	397,080	397,393	390,769	6,624
Business	442	442	435	7
Operation and Maintenance of Plant	2,162,124	2,163,826	2,127,759	36,067
Pupil Transportation	1,643,619	1,644,913	1,617,495	27,418
Central	61,492	61,541	60,515	1,026
Operation of Non-Instructional Services:				
Community Services	45,938	45,974	45,208	766
Extracurricular Activities	233,324	233,508	229,616	3,892
<i>Total Expenditures</i>	<u>20,773,646</u>	<u>20,789,999</u>	<u>20,443,468</u>	<u>346,531</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,539,126)</u>	<u>(1,088,537)</u>	<u>(878,606)</u>	<u>209,931</u>
Other Financing Uses				
Advances Out	0	(18,027)	(18,027)	0
<i>Net Change in Fund Balance</i>	(2,539,126)	(1,106,564)	(896,633)	209,931
<i>Fund Balance Beginning of Year</i>	6,302,723	6,302,723	6,302,723	0
Prior Year Encumbrances Appropriated	350,604	350,604	350,604	0
<i>Fund Balance End of Year</i>	<u>\$ 4,114,201</u>	<u>\$ 5,546,763</u>	<u>\$ 5,756,694</u>	<u>\$ 209,931</u>

See accompanying notes to the basic financial statements.

West Holmes Local School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2006

	Governmental Activities - Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalent:	<u>\$ 1,035,380</u>
Liabilities	
Claims Payable	<u>171,334</u>
<i>Long Term Liabilities:</i>	
Advances From Other Funds	<u>550,000</u>
<i>Total Liabilities</i>	<u>721,334</u>
Net Assets	
Unrestricted	<u><u>\$ 314,046</u></u>

See accompanying notes to the basic financial statements.

West Holmes Local School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues	
Charges for Services	<u>\$ 3,123,026</u>
Operating Expenses	
Purchased Services	403,414
Claims	<u>1,938,538</u>
<i>Total Operating Expenses</i>	<u>2,341,952</u>
<i>Change in Net Assets</i>	781,074
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(467,028)</u>
<i>Net Assets End of Year</i>	<u><u>\$ 314,046</u></u>

See accompanying notes to the basic financial statements.

West Holmes Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	Governmental Activities - Internal Service Fund
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 3,123,026
Cash Paid for Goods and Services	(403,414)
Cash Paid for Claims	(2,147,918)
<i>Net Cash Provided By Operating Activities</i>	571,694
<i>Cash and Cash Equivalents Beginning of Year</i>	463,686
<i>Cash and Cash Equivalents End of Year</i>	\$ 1,035,380
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating Income	\$ 781,074
Adjustments:	
Decrease in Claims Payable	(209,380)
<i>Total Adjustments</i>	(209,380)
<i>Net Cash Provided By Operating Activities</i>	\$ 571,694

See accompanying notes to the basic financial statements.

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

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>65,456</u>
Liabilities	
Accounts Payable	\$ 746
Due to Students	<u>64,710</u>
<i>Total Liabilities</i>	<u>\$ 65,456</u>

See accompanying notes to the basic financial statements.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 – Description of the School District and Reporting Entity

The West Holmes Local School District (the “School District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2006, was 2,806. The School District employs 196 certificated and 130 non-certificated employees.

Reporting Entity

The reporting entity is required to be 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 School District. For West Holmes Local School District, this includes general operations, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and 1) the School District is able to significantly influence the programs or services performed or provided by the organization; or 2) the School District is legally 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 Ashland County-West Holmes 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 reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also 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 limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or 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 uses 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 are the School District's major governmental funds:

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Bond Retirement Fund The bond retirement debt service fund is used to account for the accumulation of property tax revenues for, and the payment of, principal and interest obligations relative to the school District's general obligation bonds.

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

Proprietary Fund Type Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

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 a self-insurance program for employee health benefits.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. 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 fund is an agency fund. The School District's agency fund accounts for student activities.

C. Measurement Focus

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

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund 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 and the statements for the proprietary and fiduciary funds are prepared using 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 sixty days of the fiscal year-end.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 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.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

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 fund level. Budgetary modifications at this level require a resolution of the Board of Education. The treasurer has been given the authority to allocate Board appropriations to the function and object levels 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 and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

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 the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to, certificates of deposit, money market accounts, and STAROhio.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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.

Following Ohio statutes, the Board of Education has, by resolution, specified the general fund to receive allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$329,639 with \$116,018 assigned from other funds.

The School District has a bank account for the repayment of bonds and coupons held separate from the School District's central bank account. This non-interest bearing checking account is presented in the financial statements as "cash and cash equivalents with fiscal agent" since it is not required to be deposited into the School District treasury.

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 considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

G. Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

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

H. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method.

I. Capital Assets

The School District's only capital assets are 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.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

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 maintains a capitalization threshold of three thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	10 Years
Infrastructure	10 - 50 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as "Advances to / from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets.

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 School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

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 and accrued liabilities from internal service fund 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, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

M. 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 repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. 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. Net assets restricted for other purposes include instructional activities and grants

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

O. Fund Balance Reserves

The School District reserves those portions of fund equity 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, property taxes and advances.

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

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. 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 services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are classified as non-operating.

Q. Extraordinary and Special Items

Extraordinary 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 – Restatement of Net Assets and Changes in Accounting Principles

A. Restatement of Net Assets

In the prior year, depreciation on capital assets was overstated by \$797,268, which caused capital assets to be understated by the same amount in governmental activities.

	Governmental Activities
Previously Stated Net Assets, June 30, 2005	\$ 14,716,622
Understatement of Capital Assets	797,268
Restated Net Assets, July 1, 2005	\$ 15,513,890

B. Changes in Accounting Principles

For the year ended June 30, 2006, the School District has implemented GASB Statement No 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46 "Net Assets Restricted by Enabling Legislation", and Statement No. 47 "Accounting for Termination Benefits."

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 3 – Restatement of Net Assets and Changes in Accounting Principles (Continued)

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

The implementation of these GASB Statements did not have an effect on the financial statements of the School District.

Note 4 – Accountability

Fund balances at June 30, 2006 included the following individual fund deficit:

<i>Non-Major Special Revenue Fund:</i>	
Food Service	\$ (11,269)

The deficits in the non-major fund resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide transfers when cash is required, not when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual, is presented for the general fund on the budgetary basis. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 5 - Budgetary Basis of Accounting (Continued)

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

Net Change in Fund Balance	
GAAP Basis	\$ (262,032)
Net Adjustment for Revenue Accruals	(217,037)
Net Adjustment for Expenditure Accruals	(123,246)
Adjustment for Encumbrances	<u>(294,318)</u>
Budget Basis	<u><u>\$ (896,633)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

- 1) United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 6 - Deposits and Investments (Continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 6 - Deposits and Investments (Continued)

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$8,589,168. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$8,155,810 of the School District's bank balance of \$8,695,298 was exposed to custodial risk as discussed above, while \$539,488 was covered by Federal Deposit Insurance Corporation.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
STAROhio	<u>\$ 748,184</u>	<u>\$ 748,184</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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 School District's investment policy limits investment portfolio maturities to two years or less for investments with a fixed interest rate, and one year or less for investments with a variable interest rate.

Credit Risk. Standard & Poor's has assigned STAROhio an AAA rating.

Concentration of Credit Risk. The School 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 School District at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	<u>\$ 748,184</u>	100%

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values 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 taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Holmes, Wayne, Coshocton and Ashland 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, 2006, 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 delayed personal property tax and the amount of real property taxes 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.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 7 - Property Taxes (Continued)

The amount available as an advance at June 30, 2006, was \$640,458 and is recognized as revenue. \$529,276 was available to the general fund, \$79,197 was available to the bond retirement debt service fund and \$31,985 was available to the permanent improvement fund reported with other governmental funds.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	Holmes	Wayne	Coshocton	Ashland
Real Property:				
Residential/Agricultural	\$ 215,795,180	\$ 4,530,590	\$ 5,987,340	\$ 1,579,420
Commercial/Industrial	41,101,730	302,520	33,900	0
Public Utilities	22,630	8,470	307,800	54,010
Mineral	2,234,320	0	115,760	0
Tangible Personal Property:				
General	24,974,470	373,390	10,407	15,190
Public Utilities	17,061,920	1,791,270	0	242,360
Total Capital Assets, Net	<u>\$ 301,190,250</u>	<u>\$ 7,006,240</u>	<u>\$ 6,455,207</u>	<u>\$ 1,890,980</u>
Tax rate per \$1,000 of assessed value	<u>\$ 33.00</u>	<u>\$ 33.00</u>	<u>\$ 33.00</u>	<u>\$ 33.00</u>

Note 8 - Receivables

Receivables at June 30, 2006, consisted of taxes, accounts (fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal Funds. All are expected to be received within one year.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 9 – Capital Assets

In the prior year, depreciation on capital assets was overstated by \$797,268, which caused capital assets to be understated by the same amount in governmental activities.

The capital asset balances have been restated as follows:

	<u>Balance 6/30/2005</u>	<u>Adjustments</u>	<u>Restated Balance 7/1/2005</u>
Governmental Activities			
<i>Capital Assets, Not Being Depreciated</i>			
Land	\$ 643,088	\$ 0	\$ 643,088
 <i>Capital Assets Being Depreciated</i>			
Buildings and Improvements	31,158,841	0	31,158,841
Furniture and Equipment	1,164,443	0	1,164,443
Vehicles	2,088,335	0	2,088,335
Infrastructure	<u>31,884</u>	<u>0</u>	<u>31,884</u>
 <i>Total Capital Assets Being Depreciated</i>	<u>34,443,503</u>	<u>0</u>	<u>34,443,503</u>
 <i>Less: Accumulated Depreciation</i>			
Buildings and Improvements	(8,331,305)	625,778	(7,705,527)
Furniture and Equipment	(818,102)	47,744	(770,358)
Vehicles	(1,486,697)	123,746	(1,362,951)
Infrastructure	<u>(29,086)</u>	<u>0</u>	<u>(29,086)</u>
 <i>Total Accumulated Depreciation</i>	<u>(10,665,190)</u>	<u>797,268</u>	<u>(9,867,922)</u>
 <i>Total Capital Assets Being Depreciated, Net</i>	<u>23,778,313</u>	<u>797,268</u>	<u>24,575,581</u>
 <i>Governmental Activities Capital Assets, Net</i>	<u>\$ 24,421,401</u>	<u>\$ 797,268</u>	<u>\$ 25,218,669</u>

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 9 – Capital Assets (Continued)

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

	Restated Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006
Governmental Activities				
<i>Capital Assets, not Being Depreciated</i>				
Land	\$ 643,088	\$ 0	\$ 0	\$ 643,088
 <i>Capital Assets, Being Depreciated:</i>				
Buildings and Improvements	31,158,841	76,458	0	31,235,299
Furniture and Equipment	1,164,443	112,601	(12,200)	1,264,844
Vehicles	2,088,335	78,837	0	2,167,172
Infrastructure	31,884	0	0	31,884
Total Capital Assets, Being Depreciated	34,443,503	267,896	(12,200)	34,699,199
 <i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(7,705,527)	(653,988)	0	(8,359,515)
Furniture and Equipment	(770,358)	(69,632)	6913	(833,077)
Vehicles	(1,362,951)	(166,127)	0	(1,529,078)
Infrastructure	(29,086)	(314)	0	(29,400)
Total Accumulated Depreciation	(9,867,922)	(890,061) *	6,913	(10,751,070)
Total Capital Assets Being Depreciated, Net	24,575,581	(622,165)	(5,287)	23,948,129
Governmental Activities Capital Assets, Net	\$ 25,218,669	\$ (622,165)	\$ (5,287)	\$ 24,591,217

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 466,729
Special	1,962
Vocational	19,620
Support Services	
Pupil	1,308
Instructional Staff	4,500
Administration	20,044
Fiscal	3,924
Business	10,464
Operation and Maintenance of Plant	29,085
Pupil Transportaion	175,938
Operation of Non-Instructional Services	42,686
Extracurricular Activities	113,801
Total Depreciation	\$ 890,061

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$2,500 per incident. The School District's vehicle insurance policy limit is \$1,000,000 with a \$1,000 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the School District carries a \$1,000,000 blanket umbrella policy. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 in aggregate. Settlements have not exceeded insurance coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

The Superintendent has a \$25,000 position bond. The Treasurer is covered under a surety bond in the amount of \$50,000.

B. Workers' Compensation

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the District pays an enrollment fee to the program to cover the costs of administration.

C. Employee Medical Benefits

The School District has established a limited risk management program for its medical insurance program. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$60,000, and aggregate claims in excess of \$2,874,862. The liability for unpaid claims cost of \$171,334 is reported in the fund at June 30, 2006 in accordance with Government Accounting Standards Board Statement No. 10.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 10 - Risk Management (Continued)

Changes in the fund's claims liability amount in 2005 and 2006 were:

	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2005	\$ 548,887	\$ 2,339,216	\$ 2,507,389	\$ 380,714
2006	\$ 380,714	\$ 1,938,538	\$ 2,147,918	\$ 171,334

Note 11- Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion 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's Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$414,375, \$422,520 and \$463,872, respectively; 47 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$221,580 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, and Ohio 43215-3771, or by calling (614) 227-4090.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 11- Defined Benefit Pension Plans (Continued)

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 on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS 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. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salaries and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, 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 to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,400,826, \$1,482,840 and \$1,345,416, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$252,040 represents the unpaid contribution for fiscal year 2006, and is recorded as a liability within the respective funds.

C. Social Security System

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

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 12 - Postemployment Benefits

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

All retirees of the DC and Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$100,059 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Reserve 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 Ohio were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2 percent of each employee's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$158,525.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (the latest information available), the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. SERS has 58,123 participants currently receiving health care benefits.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 13 - Long - Term Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/2005	Additions	Reductions	Outstanding 6/30/2006	Amounts Due in One Year
Governmental Activities:					
<i>1997 School Improvement</i>					
<i>Bonds, 3.7% - 5.35% variable</i>					
<i>rate interest, matures</i>					
December 2006	\$ 940,000	\$ 0	\$ (460,000)	\$ 480,000	\$ 480,000
 <i>2005 School Improvement</i>					
<i>Refunding Bonds \$13,114,986</i>					
<i>Current Interest Bonds -</i>					
\$13,010,000 @ 3% -5.5%	13,010,000	0	(290,000)	12,720,000	135,000
<i>Capital Appreciation Bonds -</i>					
\$104,986 @ 3.13%-3.52%	104,986	0	0	104,986	0
Accretion of Interest \$193,879	32,493	99,949	0	132,442	0
Premium \$1,014,468	1,001,120	0	(53,394)	947,726	0
Refunding Loss \$807,570	(796,944)	0	42,504	(754,440)	0
Capital Lease Payable	221,402	0	(35,388)	186,014	39,947
Compensated Absences	2,062,167	250,912	(263,140)	2,049,939	7,152
 <i>Total Governmental Activities</i>					
<i>Long-Term Obligations</i>	<u>\$ 16,575,224</u>	<u>\$ 350,861</u>	<u>\$ (1,059,418)</u>	<u>\$ 15,866,667</u>	<u>\$ 662,099</u>

In 1997, the School District issued \$16,149,935 in general obligation bonds for the construction of a new High School.

On March 23, 2006, the School District issued \$13,114,986 of general obligation bonds. The bonds advance refunded \$13,115,000 of outstanding 1997 School Improvement General Obligation Bonds. The bonds were issued for a 19 year period with final maturity at December 1, 2023. At the date of refunding, \$13,922,570 (including premium and after underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 1997 School Improvement Bonds.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 13 - Long - Term Obligations (Continued)

These refunding bonds were issued with a premium of \$1,104,468 which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method, the amortization of the premium for fiscal year 2006 was \$53,394. The issuance costs of \$206,884 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method, the amortization of the issuance costs for fiscal year 2006 was \$10,889. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$807,570. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method, the amortization of this difference for fiscal year 2006 was \$42,504. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$948,518. The issuance resulted in an economic gain of \$678,264.

The 2006 bond issue consists of current interest, current interest term, and capital appreciation bonds. The capital appreciation bonds are not subject to early redemption. The current interest bonds maturing on and after December 1, 2015, are subject to optional prior redemption by the School District prior to maturity, beginning December 1, 2014. The current interest term bonds are subject to mandatory sinking fund redemption requirements.

The capital appreciation bonds for the 2006 issue mature December 1, 2008 and December 1, 2010. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holders receive the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$1,340,000. For fiscal year 2006, \$99,949 was accreted for a total bond liability of \$237,428.

General obligation and capital appreciation bonds will be paid from the debt service fund. Capital Leases will be paid from the general fund. Compensated absences will be paid from the fund which the employees' salaries are paid, which has been the practice in prior years.

Fiscal Year	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Accretion/ Interest
2007	\$ 615,000	\$ 515,711	\$ 0	\$ 0	\$ 615,000	\$ 515,711
2008	640,000	492,926	0	0	640,000	492,926
2009	0	483,326	79,160	580,840	79,160	1,064,166
2010	660,000	472,601	0	0	660,000	472,601
2011	0	461,876	25,826	654,174	25,826	1,116,050
2012-2016	3,655,000	1,982,791	0	0	3,655,000	1,982,791
2017-2021	4,470,000	1,167,290	0	0	4,470,000	1,167,290
2022-2024	3,160,000	205,276	0	0	3,160,000	205,276
	<u>\$ 13,200,000</u>	<u>\$ 5,781,797</u>	<u>\$ 104,986</u>	<u>\$ 1,235,014</u>	<u>\$ 13,304,986</u>	<u>\$ 7,016,811</u>

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 14 – Capital Leases

In prior years the School District entered into capitalized leases for copiers. The total capitalized cost of the copiers is \$221,402. All of the leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments. Capital assets acquired by the leases have been capitalized in the General Fund in the amount equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the General Fund.

The following summarizes future minimum lease payments under the above capital leases, and the present values of net minimum lease payments at June 30, 2006:

	2007	\$	50,323
	2008		50,323
	2009		50,323
	2010		54,517
Total Minimum Lease Payments			205,486
Less: Amounts Representing Interest			(19,472)
Present Value of Net Minimum Lease Payments		\$	186,014

Note 15 - Jointly Governed Organizations

A. *Tri-County Computer Service Association (TCCSA)*

TCCSA is a jointly governed organization comprised of 23 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 districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, located in Wooster, Ohio which serves as fiscal agent.

B. *Ashland County-West Holmes 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 11 member school districts. The Career Center is governed by a board of education comprised of 11 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 State of Ohio. The continued existence of the Career Center is not dependent on the School District’s continued participation and no measurable equity interest exists.

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 16 – Contingencies

A. Grants

The School 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 adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

Prior to June 30, 2006, Columbia Gas Transmission Corporation (CGT) filed an appeal with the State of Ohio Department of Taxation Public Utility Tax Division seeking a reduction in their public utility tangible personal property tax rate assessment from 88 percent to 25 percent. CGT won at the Ohio Board of Tax Appeals, and the State has appealed to the Ohio Supreme Court. The School District's maximum liability is approximately \$737,605, which represents refunds of taxes paid for tax years 2001 through 2005. However, the School District is currently unable to predict the ultimate effect of this litigation on its financial position or results of operations.

The School District is not party to any other claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

Note 17 - Set-Asides

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

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

West Holmes Local School District
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006

Note 17 - Set-Asides (Continued)

	Budget <u>Stabilization</u>	Capital <u>Improvement</u>	Textbook Instructional <u>Materials</u>
Set-Aside Reserve Balance as of June 30, 2005	\$ 70,670	\$ 0	\$ 0
Current Year Set-Aside Requirement	0	420,103	420,103
Balance Carried over from Prior Year	0	0	(415,221)
Qualifying Disbursements	<u>(70,670)</u>	<u>(467,009)</u>	<u>(532,790)</u>
Totals	<u>\$ 0</u>	<u>\$ (46,906)</u>	<u>\$ (527,908)</u>
Set-Aside Reserve Balance Carried Forward to Future Fiscal Years	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (527,908)</u>
Set-Aside Reserve Balance as of June 30, 2006	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The School District had qualifying disbursements during the year that reduced the textbook reserve set-asides below zero. These extra amounts may be used to reduce the set-aside requirement in future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvement set-aside, this amount may not be used to reduce the set-aside requirement for future years. The total reserve balance for the set-asides at the end of the fiscal year was \$-0-.

Note 18 – Interfund Activity

A. Interfund Balances

At June 30, 2006, the District had the following interfund balances:

	Interfund <u>Receivable</u>	Interfund <u>Payable</u>	Advances to <u>Other Funds</u>	Advances from <u>Other Funds</u>
General	\$ 18,027	\$ 0	\$ 550,000	\$ 0
Internal Service	0	0	0	550,000
Ohio Reads	<u>0</u>	<u>18,027</u>	<u>0</u>	<u>0</u>
	<u>\$ 18,027</u>	<u>\$ 18,027</u>	<u>\$ 550,000</u>	<u>\$ 550,000</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30, 2006. These interfund balances are expected to be repaid once the anticipated revenues are received.

B. Interfund Transfers

During fiscal year 2006, the general fund transferred \$1,516 to the Drug Free Grant fund and transferred \$260 to the Title V fund to provide additional resources for current operations.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 20, 2006

To the Board of Education
West Holmes Local School District
Holmes County, Ohio

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Holmes Local School 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 December 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Holmes Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Holmes Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of West Holmes Local School District in a separate letter dated December 20, 2006.

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

Kea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 20, 2006

To the Board of Education
West Holmes Local School District
Holmes County, Ohio

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

Compliance

We have audited the compliance of West Holmes Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to the School District's major program for the year ended June 30, 2006. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of West Holmes Local School District's management. Our responsibility is to express an opinion on West Holmes Local School District 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 the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about West Holmes Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of West Holmes Local School District's compliance with those requirements.

In our opinion, West Holmes Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major program for the year ended June 30, 2006. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards – Non GAAP Budgetary Basis

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the West Holmes Local School District as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 20, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Kea & Associates, Inc.

WEST HOLMES LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements	Non-Cash Disbursements
U. S. Department of Education (Passed Through Ohio Department of Education):					
Title I	84.010	C1-S1-2005	\$ 27,650	\$ 112,214	\$ 0
Title I	84.010	C1-S1-2006	1,094,896	963,919	0
Total Title I			1,122,546	1,076,133	0
<i>Special Education Cluster</i>					
IDEA-B	84.027	6B-SF-2005	51,033	68,235	0
IDEA-B	84.027	6B-SF-2006	678,563	580,350	0
Total IDEA-B			729,596	648,585	0
<i>Total Special Education Cluster</i>			729,596	648,585	0
Safe and Drug-Free Schools and Communities	84.186	DR-S1-2006	23,294	20,510	0
Title V	84.298	C2-S1-2006	7,714	6,109	0
Title VI-B	(C) 84.358	RU-S1-2005	(38)	28,239	0
Title VI-B	84.358	RU-S1-2006	38	0	0
Total Title VI-B			0	28,239	0
Title II-D	(C) 83.318	TJ-S1-2005	(2,441)	6,730	0
Title II-D	84.318	TJ-S1-2006	22,560	3,175	0
Total Title II-D			20,119	9,905	0
Title II-A	83.367	TR-S1-2005	12,736	21,889	0
Title II-A	83.367	TR-S1-2006	138,294	131,366	0
Total Title II-A			151,030	153,255	0
Total Department of Education			2,054,299	1,942,736	0
U.S. Department of Health and Human Services (Passed Through Ohio Department of Mental Retardation and Developmental Disabilities)					
Medical Assistance Program/CAFS	93.778		20,182	20,182	0
State Childrens Health Insurance Program	93.767		2,420	2,420	0
Total Mental Retardation and Development Disabilities			22,602	22,602	0
U. S. Department of Agriculture (Passed Through Ohio Department of Education):					
<i>Nutrition Cluster</i>					
School Breakfast Program	10.553	05-PU-2006	17,087	17,087	0
National School Lunch Program	(B) 10.555	LL-P4-2006	373,894	373,894	0
Total Nutrition Cluster			390,981	390,981	0
Food Distribution Program	(A) 10.550		86,745	0	86,745
Total Department of Agriculture			477,726	390,981	86,745
Total Federal Assistance			<u>\$ 2,554,627</u>	<u>\$ 2,356,319</u>	<u>\$ 86,745</u>

- (A) Government commodities are reported at the fair market value of the commodities received and disbursed.
(B) Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.
(C) Refunded Receipt

**WEST HOLMES LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None were noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted



Mary Taylor, CPA
Auditor of State

WEST 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 13, 2007**