



**WEST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**WEST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

West Holmes Local School District
Holmes County
28 West Jackson Street
Millersburg, Ohio 44654

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Holmes Local School District, Holmes County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, the District contracted with a professional outside party to perform a complete capital asset valuation. Capital asset balances have been adjusted as of July 1, 2004 for this valuation.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 14, 2006

West Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(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, 2005. 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 2005 are as follows:

- General Revenues accounted for \$20,876,503 in revenue or 84.5 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$3,834,085 or 15.5 percent of total revenues of \$24,710,588.
- Total program expenses were \$24,733,901.
- In total, net assets decreased \$23,313, which represents a .16 percent decrease from 2004.
- Outstanding debt decreased from \$14,495,000 to \$14,087,479 through the payment of bond principal.

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 and bond retirement funds are the most significant funds.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" 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.

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.

The government-wide financial statements begin on page 11.

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

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.

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.

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

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 23.

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 2005 compared to 2004:

Table 1
Net Assets
Governmental Activities

	<u>2005</u>	<u>Restated 2004</u>
Assets		
Current and Other Assets	\$ 18,966,487	\$ 17,568,084
Capital Assets	<u>24,421,401</u>	<u>25,061,161</u>
Total Assets	<u>43,387,888</u>	<u>42,629,245</u>
Liabilities		
Long-Term Liabilities	16,575,224	16,597,391
Other Liabilities	<u>12,096,042</u>	<u>11,291,919</u>
Total Liabilities	<u>28,671,266</u>	<u>27,889,310</u>
Net Assets		
Invested in Capital Assets Net of Debt	10,144,999	10,405,624
Restricted	1,069,616	1,585,496
Unrestricted (Deficit)	<u>3,502,007</u>	<u>2,748,815</u>
Total Net Assets	<u>\$ 14,716,622</u>	<u>\$ 14,739,935</u>

Total assets increased by \$758,643. This is primarily due to an increase in the District's taxes receivable compared to the prior year. The net assets of the School District's governmental activities decreased \$23,313.

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

Table 2 shows the changes in net assets for fiscal year 2005 and 2004.

Table 2
Change in Net Assets
Governmental Activities

	2005	2004
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,234,666	\$ 1,031,818
Operating Grants	2,571,819	1,661,836
Capital Grants	27,600	25,400
<i>General Revenue:</i>		
Property Taxes	8,333,154	7,746,886
Grants and Entitlements	12,215,750	11,558,713
Other	327,599	267,082
<i>Total Revenues</i>	24,710,588	22,291,735
Program Expenses		
Instruction	14,865,954	14,124,267
Support Services	7,759,795	7,637,340
Operation of Non-Instructional	939,658	1,023,475
Extracurricular Activities	676,310	502,766
Interest and Fiscal Charges	492,184	1,096,635
<i>Total Expenses</i>	24,733,901	24,384,483
Decrease in Net Assets	\$ (23,313)	\$ (2,092,748)

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 2005 and 2004. 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
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 14,865,954	\$ 12,756,282	\$ 14,124,267	\$ 12,746,010
Support Services:				
Pupil and Instructional Staff	1,550,301	1,189,556	1,541,505	1,345,185
Board of Education, Administration, Fiscal, and Business	2,740,959	2,531,234	2,582,505	2,427,276
Operation and Maintenance of Plant and Central	1,994,044	1,994,044	1,884,720	1,884,720
Pupil Transportation	1,474,491	1,474,491	1,628,610	1,628,610
Operation of Non-Instructional	939,658	30,119	1,023,475	210,657
Extracurricular Activities	676,310	431,906	502,766	326,336
Interest and Fiscal Charges	492,184	492,184	1,096,635	1,096,635
Total	\$ 24,733,901	\$ 20,899,816	\$ 24,384,483	\$ 21,665,429

Instruction and student support services comprise 66.4 percent of governmental program expenses. Interest was 2 percent. Interest expense was attributable to the outstanding bonds. Pupil transportation and the operation/maintenance of facilities accounts for 14 percent of governmental program expenses.

The dependence upon tax and other general revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for West Holmes Local School District students.

Governmental Funds

All governmental funds had total revenues of \$24,580,216 and expenditures of \$24,890,229 for fiscal year 2005. All governmental funds had total revenues of \$22,379,958 and expenditures of \$23,597,039 for fiscal year 2004.

General Funds

The School District's general fund balance decreased \$185,508. 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 increased \$271,808. The increase in fund balance can be attributed to revenues exceeding debt service principal and interest payments.

West Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(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 2005, the School District did modify its general fund appropriations. 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, budget basis revenue of \$19,479,132 was \$223,476 over the original budget estimate of \$19,255,656. Final appropriations of \$19,978,776 were \$444,928 less than the \$20,423,704 in the original appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$24,421,401 invested in land, buildings, equipment, vehicles and infrastructure. Table 4 shows fiscal year 2005 balances compared with 2004 as restated.

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

	2005	2004
Land	\$ 643,088	\$ 618,284
Buildings and Improvements	22,827,536	23,453,314
Furniture and Equipment	346,341	394,085
Vehicles	601,638	592,366
Infrastructure	2,798	3,112
Totals	\$ 24,421,401	\$ 25,061,161

The \$639,760 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 \$151.74 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 2005, 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
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Debt

At June 30, 2005, the School District had \$14,087,479 in bonds outstanding with \$750,000 due within one year. During fiscal year 2005, \$13,555,000 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt, at June 30
Governmental Activities

	2005	2004
General Obligation Bonds:		
1997 School Improvement Bonds	\$ 940,000	\$ 14,495,000
2005 School Improvement Refunding Bonds:		
Serial and Term Bonds	13,010,000	0
Capital Appreciation Bonds	137,479	0
Total	\$ 14,087,479	\$ 14,495,000

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 is currently reviewing the timeline and when they plan to put a second attempt on the ballot.

The School District receives 62% of its General Fund revenue from State and Federal sources and 38% 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.

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.

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

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 and property/liability/fleet insurance.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

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, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 9,298,778
Receivables:	
Taxes	9,029,883
Accounts	20,107
Accrued Interest	35,410
Intergovernmental	270,776
Materials and Supplies Inventory	107,371
Deferred Charges	204,162
Nondepreciable Capital Assets	643,088
Depreciable Capital Assets, Net	23,778,313
<i>Total Assets</i>	43,387,888
Liabilities	
Accounts Payable	149,635
Accrued Wages and Benefits	2,140,495
Intergovernmental Payable	574,347
Accrued Interest Payable	44,075
Accrued Vacation Leave Payable	208,640
Deferred Revenue	8,474,490
Claims Payable	380,714
Matured Compensated Absences Payable	123,646
Long-Term Liabilities:	
Due Within One Year	813,501
Due in More Than One Year	15,761,723
<i>Total Liabilities</i>	28,671,266
Net Assets	
Invested in Capital Assets, Net of Related Debt	10,144,999
Restricted for:	
Debt Service	256,129
Capital Projects	536,831
Other Purposes	276,656
Unrestricted	3,502,007
<i>Total Net Assets</i>	\$ 14,716,622

The notes to the basic financial statements are an integral part of this statement.

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

	Expenses	Program Revenues			Net (Expense)
		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	\$ 9,914,395	\$ 377,364	\$ 275,303	\$ 27,600	\$ (9,234,128)
Special	3,111,342	0	1,429,405	0	(1,681,937)
Vocational	508,318	0	0	0	(508,318)
Other	1,331,899	0	0	0	(1,331,899)
Support Services:					
Pupils	856,452	18,852	111,581	0	(726,019)
Instructional Staff	693,849	260	230,052	0	(463,537)
Board of Education	66,251	0	0	0	(66,251)
Administration	2,192,281	42,984	152,584	0	(1,996,713)
Fiscal	468,765	0	14,157	0	(454,608)
Business	13,662	0	0	0	(13,662)
Operation and Maintenance of Plant	1,957,819	0	0	0	(1,957,819)
Pupil Transportation	1,474,491	0	0	0	(1,474,491)
Central	36,225	0	0	0	(36,225)
Operation of Non-Instructional Services	939,658	550,802	358,737	0	(30,119)
Extracurricular Activities	676,310	244,404	0	0	(431,906)
Interest and Fiscal Charges	492,184	0	0	0	(492,184)
Total Governmental Activities	\$ 24,733,901	\$ 1,234,666	\$ 2,571,819	\$ 27,600	(20,899,816)
General Revenues					
Property Taxes Levied for:					
General Purposes					6,873,197
Capital Outlay					439,464
Debt Service					1,020,493
Grants and Entitlements not Restricted to Specific Programs					12,215,750
Investment Earnings					146,439
Gain on capital lease trade					111,196
Miscellaneous					69,964
Total General Revenues					20,876,503
Change in Net Assets					(23,313)
<i>Net Assets Beginning of Year, Restated (See Note 3)</i>					<u>14,739,935</u>
<i>Net Assets End of Year</i>					<u>\$ 14,716,622</u>

The notes to the basic financial statements are an integral part of this statement.

West Holmes Local School District

Balance Sheet

Governmental Funds

June 30, 2005

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 6,582,657	\$ 1,227,349	\$ 954,416	\$ 8,764,422
Restricted Cash and Cash Equivalents	70,670	0	0	70,670
Receivables:				
Taxes	7,448,242	1,123,453	458,188	9,029,883
Accounts	16,844	2,241	1,022	20,107
Accrued Interest	35,410	0	0	35,410
Interfund	1,776	0	0	1,776
Intergovernmental	24,040	0	246,736	270,776
Materials and Supplies Inventory	75,210	0	32,161	107,371
Advances to Other Funds	550,000	0	0	550,000
<i>Total Assets</i>	<u>\$ 14,804,849</u>	<u>\$ 2,353,043</u>	<u>\$ 1,692,523</u>	<u>\$ 18,850,415</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	103,393	0	46,242	149,635
Accrued Wages and Benefits	1,903,828	0	236,667	2,140,495
Interfund Payable	0	0	1,776	1,776
Intergovernmental Payable	487,040	0	87,307	574,347
Deferred Revenue	7,130,137	1,075,472	459,802	8,665,411
Matured Compensated Absences Payable	85,891	0	37,755	123,646
<i>Total Liabilities</i>	<u>9,710,289</u>	<u>1,075,472</u>	<u>869,549</u>	<u>11,655,310</u>
Fund Balances				
Reserved for Encumbrances	247,210	0	122,947	370,157
Reserved for Inventory	75,210	0	32,161	107,371
Reserved for Advances	550,000	0	0	550,000
Reserved for Property Taxes	318,105	47,981	19,569	385,655
Reserved for Budget Stabilization	70,670	0	0	70,670
Unreserved, Undesignated, Reported in:				
General Fund	3,833,365	0	0	3,833,365
Special Revenue Funds	0	0	186,977	186,977
Debt Service Fund	0	1,229,590	0	1,229,590
Capital Projects Funds	0	0	461,320	461,320
<i>Total Fund Balances</i>	<u>5,094,560</u>	<u>1,277,571</u>	<u>822,974</u>	<u>7,195,105</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 14,804,849</u>	<u>\$ 2,353,043</u>	<u>\$ 1,692,523</u>	<u>\$ 18,850,415</u>

The notes to the basic financial statements are an integral part of this statement.

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

Total Governmental Fund Balances		\$ 7,195,105
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		24,421,401
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.		204,162
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is not recorded.		(44,075)
Delinquent property taxes are not available to pay for current-period expenditures and therefore, are deferred in the funds.		190,921
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.		(467,028)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Accrued Vacation Payable	\$ (208,640)	
General Obligation Bonds	(13,950,000)	
Capital Appreciation Bonds	(104,986)	
Accretion on Capital Appreciation Bonds	(32,493)	
Refunding Loss	796,944	
Unamortized Bond Premium	(1,001,120)	
Compensated Absences	(2,062,167)	
Capital Lease Payable	(221,402)	
	(16,783,864)	
<i>Net Assets of Governmental Activities</i>		\$ 14,716,622

The notes to the basic financial statements are an integral part of this statement.

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

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 6,850,274	\$ 1,021,502	\$ 438,524	\$ 8,310,300
Intergovernmental	12,074,219	115,432	2,636,235	14,825,886
Investment Income	145,922	0	517	146,439
Tuition and Fees	377,264	0	1,765	379,029
Extracurricular Activities	0	0	274,441	274,441
Charges for Services	0	0	581,196	581,196
Miscellaneous	32,893	2,241	27,791	62,925
<i>Total Revenues</i>	<u>19,480,572</u>	<u>1,139,175</u>	<u>3,960,469</u>	<u>24,580,216</u>
Expenditures				
Current				
Instruction:				
Regular	8,758,109	0	411,751	9,169,860
Special	1,699,331	0	1,396,140	3,095,471
Vocational	477,190	0	0	477,190
Other	1,331,899	0	0	1,331,899
Support Services:				
Pupils	766,557	0	114,562	881,119
Instructional Staff	488,003	0	234,055	722,058
Board of Education	66,251	0	0	66,251
Administration	1,983,798	0	184,499	2,168,297
Fiscal	413,530	27,541	25,853	466,924
Operation and Maintenance of Plant	1,970,036	0	0	1,970,036
Pupil Transportation	1,536,962	0	0	1,536,962
Central	36,225	0	0	36,225
Operation of Non-Instructional Services	50,270	0	934,800	985,070
Extracurricular Activities	251,229	0	279,991	531,220
Capital Outlay	0	0	339,806	339,806
Debt Service:				
Principal	49,341	440,000	0	489,341
Interest	15,790	399,826	0	415,616
Issuance Costs	0	206,884	0	206,884
<i>Total Expenditures</i>	<u>19,894,521</u>	<u>1,074,251</u>	<u>3,921,457</u>	<u>24,890,229</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(413,949)</u>	<u>64,924</u>	<u>39,012</u>	<u>(310,013)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	7,039	0	0	7,039
Inception of Capital Lease	221,402	0	0	221,402
Refund of Prior Year Receipts	0	0	(10,717)	(10,717)
Refunding Bonds Issued	0	13,114,986	0	13,114,986
Payment to Refunded Bond Escrow Agent	0	(13,922,570)	0	(13,922,570)
Premium on Debt Issuance	0	1,014,468	0	1,014,468
<i>Total Other Financing Sources (Uses)</i>	<u>228,441</u>	<u>206,884</u>	<u>(10,717)</u>	<u>424,608</u>
<i>Net Change in Fund Balances</i>	<u>(185,508)</u>	<u>271,808</u>	<u>28,295</u>	<u>114,595</u>
<i>Fund Balance Beginning of Year</i>	<u>5,280,068</u>	<u>1,005,763</u>	<u>794,679</u>	<u>7,080,510</u>
<i>Fund Balance End of Year</i>	<u>\$ 5,094,560</u>	<u>\$ 1,277,571</u>	<u>\$ 822,974</u>	<u>\$ 7,195,105</u>

The notes to the basic financial statements are an integral part of this statement.

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

Net Change in Fund Balances - Total Governmental Funds \$ 114,595

*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	\$ 166,691	
Current Year Depreciation	(806,451)	(639,760)

Delinquent property taxes in the statement of activities do not provide
current financial resources are not reported as revenues
in the funds.

22,855

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	13,555,000	
Capital Leases	49,341	13,604,341

Other financing sources in the governmental funds that increase long-term
liabilities in the statement of net assets are not reported as revenues.

Inception of Capital Lease	(110,206)	
Bond Premium	(1,001,120)	
Proceeds of Bonds	(13,114,986)	(14,226,312)

In the statement of activities, interest is accrued on outstanding
bonds, whereas in governmental funds, an interest expenditure
is reported when due.

Accrued Interest	(44,075)	
Bond Issuance Costs	204,162	
Accounting Loss associated with bond issuance	796,944	
Bond Accretion	(32,493)	924,538

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

Compensated Absences	(120,313)	
Accrued Vacation Payable	(208,640)	
Pension Obligation	329,828	875

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 of internal service
funds is reported with governmental activities.

175,555

Change in Net Assets of Governmental Activities

\$ (23,313)

The notes to the basic financial statements are an integral part of this statement.

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, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 6,758,662	\$ 6,841,662	\$ 6,841,176	\$ (486)
Intergovernmental	11,304,692	11,800,000	12,050,947	250,947
Investment Income	160,000	124,000	123,483	(517)
Tuition and Fees	331,500	330,000	377,605	47,605
Miscellaneous	700,802	383,470	24,544	(358,926)
<i>Total Revenues</i>	<u>19,255,656</u>	<u>19,479,132</u>	<u>19,417,755</u>	<u>(61,377)</u>
Expenditures				
Current				
Instruction:				
Regular	9,000,000	8,980,000	8,878,193	101,807
Special	1,800,000	1,700,000	1,675,636	24,364
Vocational	500,000	500,000	504,333	(4,333)
Other	1,468,704	1,400,000	1,367,634	32,366
Support Services:				
Pupils	800,000	750,000	761,493	(11,493)
Instructional Staff	500,000	500,000	483,413	16,587
Board of Education	100,000	75,000	84,718	(9,718)
Administration	1,900,000	1,850,000	1,813,670	36,330
Fiscal	500,000	497,076	457,453	39,623
Operation and Maintenance of Plant	2,000,000	1,900,000	2,044,872	(144,872)
Pupil Transportation	1,500,000	1,500,000	1,543,284	(43,284)
Central	40,000	36,500	36,248	252
Operation of Non-Instructional Services	70,000	64,200	64,173	27
Extracurricular Activities	245,000	226,000	236,297	(10,297)
<i>Total Expenditures</i>	<u>20,423,704</u>	<u>19,978,776</u>	<u>19,951,417</u>	<u>27,359</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,168,048)</u>	<u>(499,644)</u>	<u>(533,662)</u>	<u>(34,018)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	0	50	50
Advances In	0	0	44,500	44,500
Advances Out	0	0	(1,776)	(1,776)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>42,774</u>	<u>42,774</u>
<i>Net Change in Fund Balance</i>	(1,168,048)	(499,644)	(490,888)	8,756
<i>Fund Balance Beginning of Year</i>	6,056,406	6,056,406	6,056,406	0
Prior Year Encumbrances Appropriated	737,205	737,205	737,205	0
<i>Fund Balance End of Year</i>	<u>\$ 5,625,563</u>	<u>\$ 6,293,967</u>	<u>\$ 6,302,723</u>	<u>\$ 8,756</u>

The notes to the basic financial statements are an integral part of this statement.

West Holmes Local School District
Statement of Net Assets
Proprietary Fund
June 30, 2005

	<u>Governmental Activities - Internal Service</u>
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 463,686</u>
Liabilities	
<i>Current Liabilities</i>	
Claims Payable	380,714
<i>Long-Term Liabilities</i>	
Advances From Other Funds	<u>550,000</u>
<i>Total Liabilities</i>	<u>930,714</u>
Net Assets	
Unrestricted	<u><u>\$ (467,028)</u></u>

The notes to the basic financial statements are an integral part of this statement.

West Holmes Local School District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service</u>
Operating Revenues	
Charges for Services	\$ 2,939,202
Operating Expenses	
Purchased Services	424,431
Claims	<u>2,339,216</u>
<i>Total Operating Expenses</i>	<u>2,763,647</u>
<i>Operating Income</i>	175,555
<i>Net Assets(Deficit) Beginning of Year</i>	<u>(642,583)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>\$ (467,028)</u></u>

The notes to the basic financial statements are an integral part of this statement.

West Holmes Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Charges for Services	\$ 2,943,972
Cash Paid for Goods and Services	(424,431)
Cash Paid for Claims	<u>(2,507,389)</u>
<i>Net Cash Provided by Operating Activities</i>	12,152
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>451,534</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 463,686</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$ 175,555
Adjustments:	
Decrease in Accounts Receivable	4,770
Decrease in Claims Payable	<u>(168,173)</u>
<i>Total Adjustments</i>	<u>(163,403)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 12,152</u></u>

The notes to the basic financial statements are an integral part of this statement.

West Holmes Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 81,270
Liabilities	
Accounts Payable	\$ 3,875
Undistributed Monies	<u>77,395</u>
<i>Total Liabilities</i>	<u>\$ 81,270</u>

The notes to the basic financial statements are an integral part of this statement.

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West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2004, was 2,788. The School District employs 202 certificated and 138 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
For the Fiscal Year Ended June 30, 2005

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:

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 funds are agency funds. The School District's agency funds account for student activities.

C. Measurement Focus

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

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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. 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 2005, investments were limited to, certificates of deposit, money market accounts, and Star Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Certificates of deposit are reported at cost.

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 2005 amounted to \$145,922.

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.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund include amounts required by statute to be set-aside to create a reserve for budget stabilization. See Note 17 for additional information regarding set asides.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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. Bond Premium

Bond premiums are recorded as an other financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

J. 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.

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

K. 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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

L. 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 District's past experience of making termination payments.

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees will be paid.

M. 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. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, inventory of materials and supplies, property taxes, advances and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

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 is the primary activity of the fund.

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 2005.

R. Estimates

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

S. 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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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.

Note 3 – Implementation of New Standards/Restatement of Capital Assets/Net Assets

For fiscal year 2005, the School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have a significant effect on the financial statements of the School District. Refer to Note 6 for additional documentation concerning GASB Statement No. 40.

For fiscal year 2005, the School District contracted with a professional outside party to perform a complete capital asset valuation. Capital asset balances have been adjusted as of July 1, 2004 for this valuation.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

	Balance 06/30/04	Adjustments	Balance 07/01/04
Governmental Activities			
<i>Capital Assets, not being depreciated:</i>			
Land	\$ 618,284	\$ 0	\$ 618,284
<i>Capital Assets, being depreciated:</i>			
Buildings and Improvements	23,917,640	7,241,201	31,158,841
Furniture and Equipment	3,015,495	(1,851,052)	1,164,443
Vehicles	1,821,937	124,511	1,946,448
Infrastructure	31,884	0	31,884
Total Capital Assets, being depreciated	28,786,956	5,514,660	34,301,616
Less Accumulated Depreciation:			
Buildings and Improvements	(8,310,311)	604,784	(7,705,527)
Furniture and Equipment	(1,534,084)	763,726	(770,358)
Vehicles	(819,584)	(534,498)	(1,354,082)
Infrastructure	(28,772)	0	(28,772)
Total Accumulated Depreciation	(10,692,751)	834,012	(9,858,739)
Total Capital Assets being depreciated, net	18,094,205	6,348,672	24,442,877
Governmental Activities Capital Assets, Net	\$ 18,712,489	\$ 6,348,672	\$ 25,061,161

The restatement of capital assets had the following effects on the net assets of the governmental activities.

Governmental Activities Net Assets, June 30, 2004	\$ 8,391,263
Less: Net Capital Assets, June 30, 2004	(18,712,489)
Add: Net Capital Assets, July 1, 2004	25,061,161
Governmental Activities Net Assets, July 1, 2004	\$ 14,739,935

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 4 – Accountability

Fund balances at June 30, 2005 included the following individual fund deficits:

<i>Non-Major Special Revenue Funds:</i>	
Food Service	\$ 32,840
Title VI	388
Title II-D	61
Entry Year Grant	1,626

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

The self insurance internal service fund also had deficit net assets of (\$467,028). The School District is currently addressing this deficit to determine what to do to generate a positive balance.

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 to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget) 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).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance

GAAP Basis	\$ (185,508)
Net Adjustment for Revenue Accruals	(291,208)
Advances In	44,500
Net Adjustment for Expenditure Accruals	293,707
Advances Out	(1,776)
Adjustment for Encumbrances	<u>(350,603)</u>
Budget Basis	<u>\$ (490,888)</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;
- 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;

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

- 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 West Holmes Local 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 2005, the School District and public depositories complied with the provisions of these statutes.

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

At fiscal year-end, the carrying amount of the School District's deposits was \$7,872,563, which includes \$1,500 cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, \$7,432,389 of the School District's bank balance of \$7,934,438 was exposed to custodial risk as discussed above, while \$502,049 was covered by Federal Deposit Insurance Corporation.

Investments

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

Investment Type	Fair Value	Investment Maturities			
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months
STAROhio	\$ 1,507,485	\$ 1,507,485	\$ 0	\$ 0	\$ 0

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 AAAM 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, 2005:

Investment Type	Fair Value	Percent of Total
STAROhio	\$ 1,507,485	100%

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 2005 represents collections of calendar 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed 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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-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 advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the 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.

The amount available as an advance at June 30, 2005, was \$385,655 and is recognized as revenue. \$318,105 was available to the general fund, \$47,981 was available to the bond retirement debt service fund and \$19,569 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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

	<u>Holmes</u>	<u>Wayne</u>	<u>Coshocton</u>	<u>Ashland</u>
Real Property				
Residential/Agricultural	\$210,550,400	\$4,299,070	\$5,900,080	\$1,525,400
Commercial/Industrial	39,918,450	302,520	33,900	51,600
Public Utilities	22,460	8,430	0	0
Mineral	2,428,450	0	125,850	0
Tangible Personal Property				
General	24,107,380	281,078	21,940	14,010
Public Utilities	<u>17,025,960</u>	<u>1,779,670</u>	<u>313,580</u>	<u>236,800</u>
Total Valuation	<u>\$294,053,100</u>	<u>\$6,670,768</u>	<u>\$6,395,350</u>	<u>\$1,827,810</u>
Tax rate per \$1,000 of assessed value	<u>\$33.10</u>	<u>\$33.10</u>	<u>\$33.10</u>	<u>\$33.10</u>

Note 8 - Receivables

Receivables at June 30, 2005, 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

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Title I	\$ 136,213
Title VI-B	78,972
Title II-A	31,551
CAFS Reimbursement	23,272
Other	<u>768</u>
Total All Funds	<u>\$ 270,776</u>

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 9 - Capital Assets

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

	Restated Balance 07/01/04	Additions	Reductions	Balance 06/30/05
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 618,284	\$ 24,804	\$ 0	\$ 643,088
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	31,158,841	0	0	31,158,841
Furniture and Equipment	1,164,443	0	0	1,164,443
Vehicles	1,946,448	141,887	0	2,088,335
Infrastructure	31,884	0	0	31,884
Total Capital Assets, being depreciated	34,301,616	141,887	0	34,443,503
Less Accumulated Depreciation:				
Buildings and Improvements	(7,705,527)	(625,778)	0	(8,331,305)
Furniture and Equipment	(770,358)	(47,744)	0	(818,102)
Vehicles	(1,354,082)	(132,615)	0	(1,486,697)
Infrastructure	(28,772)	(314)	0	(29,086)
Total Accumulated Depreciation	(9,858,739)	(806,451)	0	(10,665,190)
Total Capital Assets being depreciated, net	24,442,877	(664,564)	0	23,778,313
Governmental Activities Capital Assets, Net	\$ 25,061,161	\$ (639,760)	\$ 0	\$ 24,421,401

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 427,790
Special	1,853
Vocational	18,529
Support Services	
Pupil	1,235
Instructional Staff	2,736
Administration	18,339
Fiscal	3,706
Business	9,882
Operation and Maintenance of Plant	26,728
Pupil Transportaion	141,879
Operation of Non-Instructional Services	39,197
Extracurricular Activities	114,577
Total Depreciation	\$ 806,451

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 \$1,000 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 2005, the School District did not participate in a group rating program. They provided their employees workers' compensation through their own program.

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 \$380,714 is reported in the fund at June 30, 2005 in accordance with Government Accounting Standards Board Statement No. 10.

Changes in the fund's claims liability amount in 2004 and 2005 were:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2004	\$ 478,434	\$2,974,147	\$2,903,694	\$ 548,887
2005	\$ 548,887	\$2,339,216	\$2,507,389	\$ 380,714

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 (614) 222-5853.

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 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, 2005, 2004, and 2003 were \$422,520, \$463,872, and \$374,424, respectively; 50 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$211,260 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability.

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.

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005, 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, 2005, 2004, and 2003 were \$1,482,840, \$1,345,416, and \$1,190,736, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$247,140 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability.

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, 2005, all members of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

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.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005, 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 \$105,917 for fiscal year 2005.

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

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, 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 2005 fiscal year equaled \$148,184.

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

West Holmes Local School District
Notes to the Basic Financial Statements
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Note 13 - Long - Term Obligations

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

	Outstanding 6/30/04	Additions	Reductions	Outstanding 6/30/05	Amounts Due in One Year
Governmental Activities:					
<i>1997 School Improvement Bonds , 3.7% - 5.35% variable rate interest, matures December 2006</i>					
	\$ 14,495,000	\$ 0	\$ 13,555,000	\$ 940,000	\$ 460,000
<i>2005 School Improvement Refunding Bonds \$13,114,986</i>					
<i>Current Interest Bonds - \$13,010,000 @ 3% -5.5%</i>					
	0	13,010,000	0	13,010,000	290,000
<i>Capital Appreciation Bonds - \$104,986 @ 3.13%-3.52%</i>					
	0	104,986	0	104,986	0
<i>Accretion of Interest \$193,879</i>					
	0	32,493	0	32,493	0
<i>Premium \$1,014,468</i>					
	0	1,014,468	13,348	1,001,120	0
<i>Refunding Loss \$807,570</i>					
	0	(807,570)	(10,626)	(796,944)	0
Capital lease payable	160,537	221,402	160,537	221,402	35,388
Compensated absences	1,941,854	177,123	56,810	2,062,167	28,113
Total Governmental Activities Long-Term Liabilities	<u>\$ 16,597,391</u>	<u>\$ 13,752,902</u>	<u>\$ 13,775,069</u>	<u>\$ 16,575,224</u>	<u>\$ 813,501</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, 2005, 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. As of June 30, 2005, \$13,115,000 of these bonds are considered defeased.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 2005 was \$13,348. 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 2005 was \$2,722. 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 2005 was \$10,626. 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 2005 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 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 2005 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 2005, \$32,493 was accreted for a total bond liability of \$137,479.

General obligation and capital appreciation bonds will be paid from the debt service fund. Compensated absences will be paid from the general fund, Title VI-B, Title II-A, Title I, and food service special revenue funds.

Principal and interest requirements to retire bonds outstanding at June 30, 2005 are as follows:

<u>1997 School Improvement General Obligation Bonds</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 460,000	\$ 32,900	\$ 492,900
2007	480,000	11,160	491,160
Total	<u>\$ 940,000</u>	<u>\$ 44,060</u>	<u>\$ 984,060</u>

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

2005 School Improvement Refunding Bonds

Fiscal Year	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2006	\$ 290,000	\$ 608,256	\$ 0	\$ 0	\$ 290,000	\$ 608,256
2007	135,000	504,551	0	0	135,000	504,551
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
2011-2015	2,870,000	2,102,592	25,826	654,174	2,895,826	2,756,766
2016-2020	4,280,000	1,355,565	0	0	4,280,000	1,355,565
2021-2024	4,135,000	359,076	0	0	4,135,000	359,076
	<u>\$ 13,010,000</u>	<u>\$ 6,378,893</u>	<u>\$ 104,986</u>	<u>\$ 1,235,014</u>	<u>\$ 13,114,986</u>	<u>\$ 7,613,907</u>

Note 14 – Capital Leases

During the fiscal year, the 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, 2005:

2006	\$ 50,323
2007	50,323
2008	50,323
2009	50,323
2010	<u>54,517</u>
Total Minimum Lease Payments	255,809
Less: Amounts Representing Interest	<u>(34,407)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 221,402</u>

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 District's continued participation and no measurable equity interest exists.

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, 2005.

B. Litigation

The School District is not currently a party to any significant legal proceedings.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

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.

	<u>Budget</u> <u>Stabilization</u>	<u>Capital</u> <u>Improvement</u>	<u>Textbook</u> <u>Instructional</u> <u>Materials</u>
Set-Aside Reserve Balance as of June 30, 2004	\$ 70,670	\$ 0	\$ 0
Current Year Set-Aside Requirement	0	420,103	420,103
Balance Carried over from Prior Year	0	0	(374,655)
Qualifying Disbursements	<u>0</u>	<u>(473,139)</u>	<u>(460,669)</u>
Totals	<u>\$ 70,670</u>	<u>\$ (53,036)</u>	<u>\$ (415,221)</u>
Set-Aside Reserve Balance Carried Forward to Future Fiscal Years	<u>\$ 70,670</u>	<u>\$ 0</u>	<u>\$ (415,221)</u>
Set-Aside Reserve Balance as of June 30, 2005	<u>\$ 70,670</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 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 \$70,670.

West Holmes Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

Note 18 – State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed “the Ohio General Assembly to enact a school funding scheme that is thorough and efficient”.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 19 – Interfund Receivable and Payable

At June 30, 2005, the District had the following interfund balances:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General	\$ 1,776	\$ 0	\$ 550,000	\$ 0
Internal Service	0	0	0	550,000
Title V	0	260	0	0
Title II-D	0	1,516	0	0
	<u>\$ 1,776</u>	<u>\$ 1,776</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. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances, except the internal service fund, are expected to be repaid with one year. The School District is unable to determine when the internal service fund balance will be repaid due to the increasing costs of health insurance and the deficit net assets in the Self-Insurance Internal Service Fund.

Note 20 – Holmes Digital Academy

During fiscal year 2004, the District began pursuing the development of a digital academy, Holmes Digital Academy. A start up grant in the amount of \$50,000 was received for the initial planning phase. This money is not included in the District’s financial statements. As of June 30, 2005, the Holmes Digital Academy’s doors are not open to students.

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**WEST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Education</u>						
<i>(Passed through the Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-2004	\$81,886		\$114,236	
		C1-S1-2005	1,052,960		968,387	
Total Title I Grants to Local Educational Agencies			1,134,846		1,082,623	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-2004-P	56,128		41,706	
		6B-SF-2005-P	557,687		540,485	
Total Special Education Cluster			613,815		582,191	
Safe and Drug-Free Schools and Communities State Grants	84.186	DR-S1-2004	468			
		DR-S1-2005	22,264		22,264	
Total Safe and Drug-Free Schools and Communities State Grants			22,732		22,264	
Innovative Education Program Strategies	84.298	C2-S1-2004	13,371			
		C2-S1-2005	11,672		11,672	
Total Innovative Education Program Strategies			25,043		11,672	
Technology Literacy Challenge Fund Grants	84.318	TJ-S1-2004	9,692		10,766	
		TJ-S1-2005	30,711		21,539	
Total Technology Literacy Challenge Fund Grants			40,403		32,305	
Improving Teacher Quality State Grants	84.367	TR-S1-2004	(13,254)		20,848	
		TR-S1-2005	168,146		158,993	
Total Improving Teacher Quality State Grants			154,892		179,841	
Rural Education	84.358		89,330		61,091	
Total U.S. Department of Education			2,081,061		1,971,987	
<u>U.S. Department of Health and Human Services</u>						
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
<i>(Passed through Tri-County Educational Service Center)</i>						
Medical Assistance Program	93.778	N/A	188,088		188,088	
Total U.S. Department of Health and Human Services			188,088		188,088	
<u>U.S. Department of Agriculture</u>						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Donation Program	10.550	N/A		\$78,682		\$83,911
School Breakfast Program	10.553	N/A	8,826		8,826	
National School Lunch Program	10.555	N/A	371,939		371,939	
Total U.S. Department of Agriculture (Child Nutrition Cluster)			380,765	78,682	380,765	83,911
Totals			\$2,649,914	\$78,682	\$2,540,840	\$83,911

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

**WEST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. However, the District did maintain inventory records of the receipts and expenditures of donated food. Therefore, receipts and expenditures of donated food for the fiscal year do not equal.

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



Auditor of State Betty Montgomery

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

West Holmes Local School District
Holmes County
28 West Jackson Street
Millersburg, Ohio 44654

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the West Holmes Local School District, Holmes County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2006, wherein we noted capital assets and net assets were restated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 14, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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West Holmes Local School District
Holmes County
Independent Accounts' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 14, 2006



Auditor of State Betty Montgomery

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

West Holmes Local School District
Holmes County
28 West Jackson Street
Millersburg, Ohio 44654

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 14, 2006

**WEST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance 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 § .510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: CFDA #10.553 School Breakfast Program, CFDA #10.555 National School Lunch Program and CFDA #10.550 Food Donation Program CFDA #84.027 Special Education Grants to States
(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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**WEST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 135.18 – the District had uncollateralized funds in the amount of \$1,903,270.	No	Partially corrected. Comment repeated in the management letter because the uncollateralized amount is only \$14,394.
2004-002	Ohio Rev. Code Section 5705.39 – appropriations exceeded estimated resources.	Yes	Corrected. Finding no longer valid.
2004-003	GAAP Conversion Plan – the IPA did not have a conversion plan.	Yes	Corrected. Finding no longer valid.



**Auditor of State
Betty Montgomery**

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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
APRIL 4, 2006**