



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

January 27, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

A handwritten signature in cursive script that reads "Dave Yost".

DAVE YOST
Auditor of State

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**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the East Holmes Local School District, Holmes County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the aggregate remaining fund information of the East Holmes Local School District, Holmes County, Ohio, as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and *Required budgetary comparison schedule* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

December 7, 2010

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of East Holmes Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2010 are as follows:

- In total, net assets increased by \$183,894
- Revenues for governmental activities totaled \$19,184,208 in 2010. Of this total, 77 percent consisted of General revenues while Program revenues accounted for the balance of 23 percent.
- Program expenses totaled \$19,000,314. Instructional expenses made up 56.9 percent of this total while support services accounted for 35.6 percent. Other expenses rounded out the remaining 7.5 percent.
- Outstanding general obligation bonded debt decreased from \$2,135,000 to \$1,960,000 in 2010.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2010?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's performance, demographic and socioeconomic factors and willingness of the community to support the School District. On the other hand, financial factors may include the School District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

Governmental Funds

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

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2010 compared to 2009:

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table I
Net Assets

	Governmental Activities	
	2010	2009
Assets		
Current and Other Assets	\$16,631,196	\$15,993,905
Capital Assets, Net	11,220,475	11,721,248
Total Assets	27,851,671	27,715,153
Liabilities		
Current and Other Liabilities	10,669,940	10,461,730
Long-Term Liabilities:		
Due Within One Year	267,148	266,623
Due in More than One Year	3,065,437	3,321,548
Total Liabilities	14,002,525	14,049,901
Net Assets		
Invested in Capital Assets, Net of Debt	9,260,475	9,582,296
Restricted:		
Debt Service	172,689	154,623
Capital Outlay	741,589	588,898
Other Purpose	750,600	350,644
Unrestricted	2,923,793	2,988,791
Total Net Assets	\$13,849,146	\$13,665,252

Total assets increased by \$136,518. This increase is primarily due to an increase in Taxes Receivable.

Total liabilities decreased by \$47,376. The most notable area of decrease was Due in More Than One Year.

By comparing assets and liabilities, one can see the overall position of net assets has increased by \$183,894. The majority of this increase is due to Taxes Receivable at June 30, 2010.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$14,762,361 or 77 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$4,421,847 or only 23 percent of total revenue.

East Holmes Local School District
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for fiscal year 2010 as compared to fiscal year 2009.

Table 2		
Changes in Net Assets		
	Governmental Activities	
	2010	2009
Revenues		
Program Revenues:		
Charges for Services	\$1,368,233	\$1,334,424
Operating Grants and Contributions	3,053,614	2,185,058
Total Program Revenues	4,421,847	3,519,482
General Revenues:		
Property Taxes	7,910,522	8,152,015
Grants and Entitlements	6,678,898	6,493,119
Investments	105,866	192,847
Miscellaneous	67,075	143,072
Total General Revenues	14,762,361	14,981,053
Total Revenues	19,184,208	18,500,535
Program Expenses		
Instruction		
Regular	8,100,826	8,613,897
Special	2,261,250	1,746,924
Vocational	452,385	611,687
Student Intervention	9,026	49,107
Support Services:		
Pupil	806,979	702,467
Instructional Staff	962,527	967,492
Board of Education	26,885	29,109
Administration	1,640,241	1,676,775
Fiscal	435,039	438,382
Operation and Maintenance	1,484,088	1,786,365
Pupil Transportation	1,286,077	1,220,582
Central	115,771	122,411
Operating of Non-Instructional Services	787,017	803,720
Extracurricular Activities	523,695	343,681
Interest and Fiscal Charges	108,508	111,312
Total Program Expenses	19,000,314	19,223,911
Increase (Decrease) in Net Assets	183,894	(723,376)
Net Assets at Beginning of Year	13,665,252	14,388,628
Net Assets at End of Year	\$ 13,849,146	\$ 13,665,252

East Holmes Local School District
Management's Discussion and Analysis
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Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District has several continuing levies for a total of 18 mills, which currently generate an estimated \$6,647,500 in revenues. The School District also collects \$550,000 from a five year emergency levy that was last renewed in 2010, and will be put before the voters for renewal in 2019.

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

As one can see, approximately 56.9 percent of the School District's expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 35.6 percent. The remaining amount of program expenses, roughly 7.5 percent, is to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

Actual expenses were consistent with expectations but the School District experienced an increase in net assets in 2010 of \$183,894. This increase was primarily due to revenues exceeding expenses, which was caused by an increase in Operating Grants and Contributions.

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

Table 3
 Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Instruction				
Regular	\$ 8,100,826	\$7,162,011	\$ 8,613,897	\$7,785,869
Special	2,261,250	631,075	1,746,924	722,923
Vocational	452,385	438,521	611,687	611,687
Student Intervention	9,026	9,026	49,107	49,107
Support Services:				
Pupil	806,979	458,190	702,467	402,902
Instructional Staff	962,527	550,537	967,492	658,863
Board of Education	26,885	26,885	29,109	29,109
Administration	1,640,241	1,556,092	1,676,775	1,555,462
Fiscal	435,039	435,039	438,382	438,382
Operation and Maintenance	1,484,088	1,477,092	1,786,365	1,771,106
Pupil Transportation	1,286,077	1,262,543	1,220,582	1,208,190
Central	115,771	101,076	122,411	106,353
Food Service Operations	787,017	38,204	803,720	114,090
Extracurricular Activities	523,695	323,668	343,681	139,074
Interest and Fiscal Charges	108,508	108,508	111,312	111,312
Total	<u>19,000,314</u>	<u>\$14,578,467</u>	<u>19,223,911</u>	<u>\$15,704,429</u>

East Holmes Local School District
Management's Discussion and Analysis
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Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Nearly 41.6 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 35.1 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 23.3 percent of all governmental expenses.

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

School District's Funds

Information regarding the School District's major fund can be found on page 16. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$18,935,512 and expenditures of \$18,672,078. The General Fund balance decreased \$154,715, due to decreases in operating revenues.

General Fund Budgeting Highlights

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

During the course of fiscal 2010, the School District amended its general fund budget numerous times, none significant. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control disbursements but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$14,704,250; this was below original revenue estimates of \$15,040,000. The main differences between the original and final estimates were due to an over estimation of taxes and intergovernmental revenues and a significant drop in interest income. The budget basis expenditures estimate totaled \$15,416,976; this was less than the original budget estimates of \$16,426,031. This majority of this difference can be attributed to decreases in the estimates of expenditures for instructional and fiscal services.

The School District's unencumbered ending cash balance totaled \$5,048,495, which was above the original budgeted amount, due mainly to lower actual expenditures than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the School District had \$11,220,475 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, net of accumulated depreciation. Table 4 shows fiscal 2010 values compared to 2009.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

	Governmental Activities	
	2010	2009
Land	\$1,067,816	\$1,067,816
Construction in Progress	0	0
Land Improvements	1,620,594	1,608,694
Buildings and Improvements	15,737,253	15,705,708
Furniture and Equipment	1,762,542	1,725,743
Vehicles	1,605,462	1,531,889
Accumulated Deprecation	(10,573,192)	(9,918,602)
Totals	\$11,220,475	\$11,721,248

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

Debt

At June 30, 2010 the School District had \$1,960,000 in bonds outstanding. Table 5 below summarizes the School District's bonds outstanding.

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2010	2009
2001 Hiland Renovation Bonds	145,000	285,000
2007 Refunding Bonds	1,815,000	1,850,000
Totals	\$1,960,000	\$2,135,000

The 2001 Hiland renovation bonds were issued to update and expand the Hiland High School and Middle School facility. This debt will be fully repaid in fiscal year 2011.

The 2007 refunding bonds were issued to pay off the 2001 Hiland renovation bonds. This debt will be fully repaid in 2021.

The School District's overall legal debt margin was \$32,082,182 with an unvoted debt margin of \$375,589. For more information on debt refer to Note 7 of the basic financial statements.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

School District Outlook

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

The financial future of the School District is not without its challenges, though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local real property taxes to fund its operations. External challenges continue to evolve as the State of Ohio struggles with a recession and low revenues to support state and local governments.

Although the School District relies heavily on its real property taxpayers to support its operations, the community support for the schools is quite strong. As mentioned earlier, the East Holmes voters had renewed a \$550,000 emergency levy in May 2010, which will help fund the general operations of the School District through the first half of fiscal year 2020. The School District is expecting to have a positive general fund cash balance through the end of the 2013 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2013 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support. Currently, the District did not receive enough votes for the passage of an emergency levy for 5.33 mills (\$2,000,000 per year) in the November 2, 2010 general election. The Board is in the process of determining what request to make in May, 2011.

Externally, House Bill 1 was passed in July, 2010 to change the system of funding schools to the Ohio Evidence Based Model (OEBM). This system will fund schools based on expense components and be phased in over ten (10) years. Due to the current state and federal economic problems, the District will actually be losing state funding during the 2010 and 2011 fiscal years. As the OEBM is phased in, the District could see some increases in state funding, but those increases are not anticipated for several years. The continuation of the OEBM system is currently in question, with the change in power in the state government.

With 41.2 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint could have on the School District and ultimately, the residential taxpayers.

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

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Marsha K. Clark, CPA, Treasurer, at East Holmes Local School District, P.O. Box 182, Berlin, Ohio 44610, or email at EHLM_Clark@tccsa.net.

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East Holmes Local School District
Statement of Net Assets
June 30, 2010

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 6,806,589
Cash and Cash Equivalents in Segregated Accounts	246,339
Inventory Held for Resale	30,555
Materials and Supplies Inventory	80,622
Accrued Interest Receivable	1,391
Accounts Receivable	2,530
Intergovernmental Receivable	848,445
Prepaid Items	10,304
Taxes Receivable	8,555,266
Deferred Charges	49,155
Non-Depreciable Capital Assets	1,067,816
Depreciable Capital Assets, net	10,152,659
<i>Total Assets</i>	\$ 27,851,671
LIABILITIES:	
Accounts Payable	\$ 106,028
Accrued Wages and Benefits	1,695,521
Contracts Payable	114,593
Intergovernmental Payable	407,378
Accrued Interest Payable	15,852
Accrued Vacation Leave Payable	55,681
Matured Compensated Absences Payable	84,441
Deferred Revenue	8,094,051
Claims Payable	96,395
Due Within One Year	267,148
Due in More Than One Year	3,065,437
<i>Total Liabilities</i>	14,002,525
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	9,260,475
Restricted for Debt Service	172,689
Restricted for Capital Outlay	741,589
Restricted for Other Purposes	750,600
Unrestricted	2,923,793
<i>Total Net Assets</i>	\$ 13,849,146

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$ 8,100,826	\$ 425,752	\$ 513,063
Special	2,261,250	199,165	1,431,010
Vocational	452,385	0	13,864
Student Intervention	9,026	0	0
Support Services:			
Pupils	806,979	164,790	183,999
Instructional Staff	962,527	291	411,699
Board of Education	26,885	0	0
Administration	1,640,241	0	84,149
Fiscal	435,039	0	0
Operation and Maintenance of Plant	1,484,088	6,996	0
Pupil Transportation	1,286,077	0	23,534
Central	115,771	8,650	6,045
Operation of Non-Instructional Services:			
Food Service Operations	787,017	363,978	384,835
Extracurricular Activities	523,695	198,611	1,416
Interest and Fiscal Charges	108,508	0	0
Total Governmental Activities	\$ 19,000,314	\$ 1,368,233	\$ 3,053,614

General Revenues:

Property Taxes Levied:

 General Purposes

 Debt Service

 Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

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

\$	(7,162,011)
	(631,075)
	(438,521)
	(9,026)
	(458,190)
	(550,537)
	(26,885)
	(1,556,092)
	(435,039)
	(1,477,092)
	(1,262,543)
	(101,076)
	(38,204)
	(323,668)
	(108,508)
<hr/>	
\$	(14,578,467)

	7,353,626
	236,250
	320,646
	6,678,898
	105,866
	67,075
<hr/>	
	14,762,361
	183,894
	13,665,252
<hr/>	
\$	13,849,146

East Holmes Local School District
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Other Governmental Funds
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 5,363,817	\$ 1,442,772
Inventory Held for Resale	0	30,555
Materials and Supplies Inventory	79,869	753
Accrued Interest Receivable	1,391	0
Accounts Receivable	2530	0
Intergovernmental Receivable	36,780	811,665
Prepaid Items	10,304	0
Taxes Receivable	7,953,950	601,316
<i>Total Assets</i>	\$ 13,448,641	\$ 2,887,061
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 85,216	\$ 20,812
Accrued Wages and Benefits	1,364,955	330,566
Contracts Payable	93,517	21076
Intergovernmental Payable	322,363	85,015
Matured Compensated Absences Payable	84,441	0
Deferred Revenue	7,627,438	1,041,475
<i>Total Liabilities</i>	9,577,930	1,498,944
FUND BALANCES:		
Reserved:		
Reserved for Encumbrances	142,730	78,466
Reserved for Debt Service		272,472
Reserved for Property Taxes	341,700	24,415
Unreserved, Undesignated, Reported in:		
General Fund	3,386,281	0
Special Revenue Funds	0	306,498
Capital Projects Funds	0	706,266
<i>Total Fund Balances</i>	3,870,711	1,388,117
<i>Total Liabilities and Fund Balances</i>	\$ 13,448,641	\$ 2,887,061

See accompanying notes to the basic financial statements

East Holmes Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2010

<hr/> <hr/>	Total Governmental Fund Balances	\$ 5,258,828
	<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.	11,220,475
	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to:	
	Property Taxes	110,996
	Intergovernmental Grants	463,866
	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.	49,155
	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(15,852)
	Accretion on Capital Appreciation Bonds	(69,857)
	Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	
	Vacation Benefits Payable	(55,681)
	Long-term liabilities, including bonds payable, long term notes, and compensating absences, and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
	Bond Premium	(187,811)
	Refunding Loss	138,655
	Compensated Absences Payable	(1,253,572)
	General Obligation Bonds & Notes Payable	<u>(1,960,000)</u>
	Total	(3,262,728)
	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.	<u>149,944</u>
Total Governmental Funds		
\$ 6,806,589		
30,555		
80,622		
1,391		
2,530		
848,445		
10,304		
<u>8,555,266</u>		
<u>\$ 16,335,702</u>		
\$ 106,028		
1,695,521		
114,593		
407,378		
84,441		
<u>8,668,913</u>		
<u>11,076,874</u>		
221,196		
272,472		
366,115		
3,386,281		
306,498		
<u>706,266</u>		
<u>5,258,828</u>		
<u>\$ 16,335,702</u>		
	Net Assets of Governmental Activities	<u><u>\$13,849,146</u></u>

East Holmes Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General Fund	Other Governmental Funds
REVENUES:		
Property and Other Local Taxes	\$ 7,327,561	\$ 555,387
Intergovernmental	6,266,114	3,209,354
Interest	105,866	672
Tuition and Fees	619,967	5,241
Rent	6,996	0
Extracurricular Activities	0	351,486
Gifts and Donations	0	35,250
Customer Sales and Services	0	363,978
Miscellaneous	38,168	49,472
<i>Total Revenues</i>	<u>14,364,672</u>	<u>4,570,840</u>
EXPENDITURES:		
Current:		
Instruction:		
Regular	7,494,186	433,138
Special	922,858	1,280,638
Vocational	439,521	1,848
Student Intervention	9,026	0
Support Services:		
Pupils	464,305	336,631
Instructional Staff	524,774	420,995
Board of Education	26,885	0
Administration	1,530,288	81,312
Fiscal	213,932	211,882
Operation and Maintenance of Plant	1,390,808	3,495
Pupil Transportation	1,139,466	145,070
Central	62,024	53,747
Operation of Non-Instructional Services:		
Food Service Operations	0	753,265
Extracurricular Activities	223,830	159,338
Capital Outlay	2,629	89,522
Debt Service:		
Principal	0	175,000
Interest	0	81,665
<i>Total Expenditures</i>	<u>14,444,532</u>	<u>4,227,546</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(79,860)</u>	<u>343,294</u>
OTHER FINANCING SOURCES AND USES		
Transfers In	-	75,000
Proceeds from Sale of Capital Assets	145	0
Transfers Out	(75,000)	0
<i>Total Other Financing Sources</i>	<u>(74,855)</u>	<u>75,000</u>
<i>Net Change in Fund Balances</i>	(154,715)	418,294
<i>Fund Balance at Beginning of Year</i>	4,025,426	969,823
<i>Fund Balance at End of Year</i>	<u>\$ 3,870,711</u>	<u>\$ 1,388,117</u>

See accompanying notes to the basic financial statements.

East Holmes Local School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

<table border="0" style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: right;">Total</td></tr> <tr><td style="text-align: right;">Governmental</td></tr> <tr><td style="text-align: right;">Funds</td></tr> <tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;">\$ 7,882,948</td></tr> <tr><td style="border-bottom: 1px solid black;">9,475,468</td></tr> <tr><td style="border-bottom: 1px solid black;">106,538</td></tr> <tr><td style="border-bottom: 1px solid black;">625,208</td></tr> <tr><td style="border-bottom: 1px solid black;">6,996</td></tr> <tr><td style="border-bottom: 1px solid black;">351,486</td></tr> <tr><td style="border-bottom: 1px solid black;">35,250</td></tr> <tr><td style="border-bottom: 1px solid black;">363,978</td></tr> <tr><td style="border-bottom: 1px solid black;">87,640</td></tr> <tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;">18,935,512</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">7,927,324</td></tr> <tr><td style="border-bottom: 1px solid black;">2,203,496</td></tr> <tr><td style="border-bottom: 1px solid black;">441,369</td></tr> <tr><td style="border-bottom: 1px solid black;">9,026</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">800,936</td></tr> <tr><td style="border-bottom: 1px solid black;">945,769</td></tr> <tr><td style="border-bottom: 1px solid black;">26,885</td></tr> <tr><td style="border-bottom: 1px solid black;">1,611,600</td></tr> <tr><td style="border-bottom: 1px solid black;">425,814</td></tr> <tr><td style="border-bottom: 1px solid black;">1,394,303</td></tr> <tr><td style="border-bottom: 1px solid black;">1,284,536</td></tr> <tr><td style="border-bottom: 1px solid black;">115,771</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">753,265</td></tr> <tr><td style="border-bottom: 1px solid black;">383,168</td></tr> <tr><td style="border-bottom: 1px solid black;">92,151</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">175,000</td></tr> <tr><td style="border-bottom: 1px solid black;">81,665</td></tr> <tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;">18,672,078</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">263,434</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">75,000</td></tr> <tr><td style="border-bottom: 1px solid black;">145</td></tr> <tr><td style="border-bottom: 1px solid black;">(75,000)</td></tr> <tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;">145</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">263,579</td></tr> <tr><td style="border-bottom: 1px solid black;"> </td></tr> <tr><td style="border-bottom: 1px solid black;">4,995,249</td></tr> <tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;">\$ 5,258,828</td></tr> </table>	Total	Governmental	Funds	\$ 7,882,948	9,475,468	106,538	625,208	6,996	351,486	35,250	363,978	87,640	18,935,512		7,927,324	2,203,496	441,369	9,026		800,936	945,769	26,885	1,611,600	425,814	1,394,303	1,284,536	115,771		753,265	383,168	92,151		175,000	81,665	18,672,078		263,434		75,000	145	(75,000)	145		263,579		4,995,249	\$ 5,258,828	<table border="0" style="width: 100%; border-collapse: collapse;"> <tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;">Net Changes in Fund Balances - Total Governmental Funds</td><td style="text-align: right; border-top: 1px solid black; border-bottom: 1px solid black;">\$ 263,579</td></tr> <tr><td colspan="2"> Amounts reported for governmental activities in the statement of activities are different because:</td></tr> <tr><td colspan="2">Governmental funds report capital outlays as expenditures. 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East Holmes Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General
For the Fiscal Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Property and Other Local Taxes	\$ 7,425,000	\$ 7,395,000	\$ 7,306,490	\$ (88,510)
Intergovernmental	6,615,000	6,346,750	6,242,006	(104,744)
Interest	250,000	192,500	109,431	(83,069)
Tuition and Fees	625,000	642,500	619,967	(22,533)
Rent	17,500	17,500	6,996	(10,504)
Gifts and Donations	0	0	0	-
Miscellaneous	107,500	110,000	35,638	(74,362)
Total Revenues	<u>15,040,000</u>	<u>14,704,250</u>	<u>14,320,528</u>	<u>(383,722)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	8,145,451	7,790,761	7,585,131	205,630
Special	1,167,267	974,167	936,432	37,735
Vocational	513,719	483,969	473,505	10,464
Student Intervention	114,520	27,425	9,026	18,399
Support Services:				
Pupils	532,262	532,262	467,964	64,298
Instructional Staff	649,266	601,166	533,642	67,524
Board of Education	39,950	33,950	26,764	7,186
Administration	1,483,013	1,575,513	1,552,932	22,581
Fiscal	482,469	268,469	221,940	46,529
Operation and Maintenance of Plant	1,655,232	1,593,582	1,504,664	88,918
Pupil Transportation	1,209,953	1,207,953	1,162,083	45,870
Central	157,489	82,319	68,246	14,073
Extracurricular Activities	235,440	235,440	221,938	13,502
Capital Outlay	15,000	10,000	2,400	7,600
Total Expenditures	<u>16,426,031</u>	<u>15,416,976</u>	<u>14,766,667</u>	<u>650,309</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,386,031)</u>	<u>(712,726)</u>	<u>(446,139)</u>	<u>266,587</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Fixed Assets	5,000	5,000	145	(4,855)
Transfers Out	(100,000)	(75,000)	(75,000)	-
Total Other Financing Sources and Uses	<u>(95,000)</u>	<u>(70,000)</u>	<u>(74,855)</u>	<u>(4,855)</u>
Net Change in Fund Balances	(1,481,031)	(782,726)	(520,994)	261,732
Fund Balance at Beginning of Year	5,385,364	5,385,364	5,385,364	0
Prior Year Encumbrances Appropriated	184,125	184,125	184,125	0
Fund Balance at End of Year	<u>\$ 4,088,458</u>	<u>\$ 4,786,763</u>	<u>\$ 5,048,495</u>	<u>\$ 261,732</u>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2010

	<u>Self-Insurance Fund</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 246,339
	<hr/>
<i>Total Assets</i>	<u>246,339</u>
LIABILITIES:	
Claims Payable	<u>96,395</u>
NET ASSETS:	
Unrestricted	<u><u>\$ 149,944</u></u>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2010

	Self-Insurance Fund
OPERATING REVENUES:	
Charges for Services	\$ 2,082,477
OPERATING EXPENSES:	
Purchased Services	287,283
Claims	1,837,171
<i>Total Operating Expenses</i>	2,124,454
<i>Loss Before Contributions and Transfers</i>	(41,977)
<i>Net Change in Net Assets</i>	(41,977)
<i>Net Assets at Beginning of Year</i>	191,921
<i>Net Assets at End of Year</i>	\$ 149,944

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2010

	Self-Insurance Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$ 2,082,477
Cash Payments for Claims	(1,919,168)
Cash Payments for Goods and Services	(287,283)
<i>Net Cash Used in Operating Activities</i>	(123,974)
<i>Cash and Cash Equivalents Beginning of Year</i>	370,313
<i>Cash and Cash Equivalents End of Year</i>	\$ 246,339
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$ (41,977)
Increase in Liabilities:	
Claims Payable	(81,997)
<i>Net Cash Used in Operating Activities</i>	\$ (123,974)

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2010

ASSETS:

Equity in Pooled Cash and Cash Equivalents	\$ 18,448
<i>Total Assets</i>	<u>\$ 18,448</u>

LIABILITIES:

Accounts Payable	\$ 1,430
Undistributed Monies	5,310
Due to Students	<u>11,708</u>
<i>Total Liabilities</i>	<u>\$ 18,448</u>

See accompanying notes to the basic financial statements

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The East Holmes Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. East Holmes Local School District is a Local District as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2009 was 1,850. The District employed 154 certificated employees and 96 non-certificated employees.

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

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

The District is involved with Tri-County Computer Service Association (TCCSA) and Buckeye Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 15.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

A. BASIS OF PRESENTATION

The 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements During the year, the District segregates transactions related to certain 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 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 District used funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

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

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

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

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary funds are agency funds. The District's agency funds account for student activities.

C. MEASUREMENT FOCUS

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

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

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

D. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. BUDGETARY DATA

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

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Holmes County Budget Commission for rate determination.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2010.

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

F. CASH AND CASH EQUIVALENTS

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

During fiscal year 2010, investments were limited to STAROhio, the State Treasurer's Investment Pool and certificates of deposit. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2010. Certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$105,866, which includes \$22,440 assigned from other District funds.

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

G. *PREPAID ITEMS*

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

H. *INVENTORY*

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

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

I. *RESTRICTED ASSETS*

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

J. *CAPITAL ASSETS*

All capital assets of the District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$2,500 for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

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

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

K. COMPENSATED ABSENCES

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

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "mature compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported. For 2010, the retirement benefits of \$84,441 were paid using expendable available resources.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

M. NET ASSETS

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

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

N. FUND BALANCE RESERVES

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. INTERFUND ACTIVITY

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary and special items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

R. ESTIMATES

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

NOTE 3 BUDGETARY BASIS OF ACCOUNTING

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

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

Net Change in Fund Balance	
	<u>General Fund</u>
GAAP Basis	\$ (154,715)
Net Adjustments:	
Revenue Accruals	(44,144)
Expenditure Accruals	112,589
Encumbrances	<u>(434,724)</u>
Budget Basis	<u>\$ (520,994)</u>

NOTE 4 DEPOSITS AND INVESTMENTS

The East Holmes Local School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the Financial Statements as "Equity in pooled cash and cash equivalents." The amount held at fiscal year end for the Employee Benefit Self Insurance Fund was \$246,339. All benefit deposits are made to the Plan Administrator's Depository Account. Collateral is held by a qualified third-party trustee in the name of the District.

A. LEGAL REQUIREMENTS

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

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

Inactive deposits are public deposits identified as not required for use within the current 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 or depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts. Interim monies could be invested in the following obligations provided they mature or are redeemable within five years from the date of purchase:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

- 1) United State Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities, subject to the repurchase agreement, must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-loan money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAR Ohio);
- 7) Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;
- 8) Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

B. DEPOSITS

At June 30, 2010, the carrying amount of the East Holmes Local School District deposits was \$6,958,920. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$6,476,755 of the District's bank balance of \$6,985,288 was exposed to custodial risk as discussed below, while \$508,333 was covered by Federal Deposit Insurance Corporation.

C. INVESTMENTS

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$ 111,264	\$ 111,264

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

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the District at June 30, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	\$ 111,264	100.0%

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

NOTE 5 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital Assets, not being Depreciated:				
Land	\$ 1,067,816	\$ 0	\$ 0	\$ 1,067,816
Capital Assets, being Depreciated:				
Land Improvements	1,608,694	11,900	0	1,620,594
Buildings & Building Improvements	15,705,708	31,545	0	15,737,253
Furniture, Fixtures & Equipment	1,725,743	49,150	(12,351)	1,762,542
Vehicles	<u>1,531,889</u>	<u>124,866</u>	<u>(51,293)</u>	<u>1,605,462</u>
Total Capital Assets, being Depreciated	20,572,034	217,461	(63,644)	20,725,851
Less Accumulated Depreciation:				
Land Improvements	(447,296)	(73,141)	0	(520,437)
Buildings & Building Improvements	(7,367,035)	(423,745)	0	(7,790,780)
Furniture, Fixtures & Equipment	(1,154,288)	(93,862)	8,286	(1,239,864)
Vehicles	<u>(949,983)</u>	<u>(123,420)</u>	<u>51,293</u>	<u>(1,022,110)</u>
Total Accumulated Depreciation	(9,918,602)	(714,168)	59,579	(10,573,191)
Total Capital Assets being Depreciated, net	<u>10,653,432</u>	<u>(496,707)</u>	<u>(4,065)</u>	<u>10,152,660</u>
Governmental Activities Capital Assets, Net	<u>\$11,721,248</u>	<u>\$ (496,707)</u>	<u>\$ (4,065)</u>	<u>\$11,220,476</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 255,500
Special	31,667
Vocational	12,908
Support Services:	
Pupils	3,738
Instructional Staff	45,391
Administration	24,118
Fiscal Services	4,757
Operation and Maintenance of Plant	30,883
Pupil Transportation	122,703
Food Services	29,235
Extracurricular Activities	<u>153,268</u>
Total Depreciation Expense	<u>\$ 714,168</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

NOTE 6 RECEIVABLES

Receivables at June 30, 2010, consisted of taxes, intergovernmental, accrued interest and accounts receivable. 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 receivables are expected to be collected within one year.

The following is a summary of the intergovernmental receivables:

<u>Governmental Activities:</u>	
Transportation Agreements	33,561
Fuel Tax Refund	1,924
Medicaid Services	1,295
Grants	<u>811,665</u>
 Total Intergovernmental Receivables	 <u>\$848,445</u>

NOTE 7 GENERAL LONG-TERM OBLIGATIONS

	<u>Outstanding</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirement/ Amortizations</u>	<u>Outstanding</u> <u>June 30, 2010</u>	<u>Amounts Due</u> <u>In One Year</u>
Compensated Absences Payable	\$1,342,797	\$ 0	\$(89,223)	\$1,253,574	\$ 87,148
Note Payable (0%)	14,000	0	(14,000)	0	0
2000 Bonds Payable (5.0%-6.3%)	285,000	0	(140,000)	145,000	145,000
2007 Refunding Bonds (4.0%)					
General Obligation Bond	1,785,000	0	(35,000)	1,750,000	35,000
Capital Appreciation Bond	65,000	0	0	65,000	0
Accretion on Capital Appreciation	42,301	0	27,554	69,855	0
Premium	206,592	0	(18,781)	187,811	0
Accounting Loss	<u>(152,520)</u>	<u>0</u>	<u>13,865</u>	<u>(138,655)</u>	<u>0</u>
	<u>\$3,588,170</u>	<u>\$ 0</u>	<u>\$(255,585)</u>	<u>\$3,332,585</u>	<u>\$267,148</u>

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

The notes were paid from the Permanent Improvement Fund.

The 2001 Hiland renovation bonds were originally issued to update and expand the Hiland High School and Middle School facility. These bonds were refunded through the 2007 school improvement refunding general obligation bonds. At the date of refunding, \$2,134,115 (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 2000 School Improvement Bonds.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

In March, 2007, the District issued \$1,940,000 of general obligation bonds to refund the 2000 school improvement general obligation bonds. The bonds were issued for a 14 year period with final maturity at December 1, 2020. These refunding bonds were issued with a premium of \$262,935 which is reported as an increase to bonds payable. The premium is being amortized to interest expense over the life of the bonds, using the straight-line method. The amortization of the premium for fiscal year 2010 was \$18,781. The issuance costs of \$68,819 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 2010 was \$4,916. The refunding resulted in a 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 2010 was \$13,865. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and cash flows required to service the new debt of \$205,366. The issuance resulted in an economic gain of \$85,993.

The capital appreciation bonds for the 2007 issue mature on December 1, 2014 and December 1, 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives 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 \$420,000. For fiscal year 2010, \$27,554 was accreted for a total bond liability of \$134,855.

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2010, are as follows:

Year Ending June 30,	<u>2001 Hiland</u>		<u>2007 Refunding</u>		<u>2007</u>	<u>Capital</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Appreciation</u> <u>Principal</u>	<u>Bonds</u> <u>Interest</u>
2011	\$ 145,000	\$ 56,416	\$35,000	\$ 69,300	\$ 0	\$ 0
2012	0	0	190,000	64,800	0	0
2013	0	0	195,000	57,100	0	0
2014	0	0	205,000	49,100	0	0
2015	0	0	0	45,000	36,198	173,802
2016-2020	0	0	880,000	156,000	28,802	181,198
2021	<u>0</u>	<u>0</u>	<u>245,000</u>	<u>4,900</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 145,000</u>	<u>\$ 56,416</u>	<u>\$1,750,000</u>	<u>\$ 446,200</u>	<u>\$ 65,000</u>	<u>\$ 355,000</u>

NOTE 8 PROPERTY TAXES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 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 year 2010 (other than public utility property) represents the collection of 2010 taxes. Tangible personal property taxes received in calendar year 2010 were levied after April 1, 2009, on the value as of December 31, 2009. Tangible personal property assessments are being phased out. The assessment percentage for all property including inventory was reduced to 6.25 percent for 2009 and zero for 2010. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in 2010 and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax was phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2010 – 2013 the District will be fully reimbursed for the lost revenue. In calendar years 2014 – 2017, the reimbursements will be phased out.

The District received property taxes from Holmes and Wayne County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2010 was \$341,700 in the general fund, \$9,536 in the debt service fund, and \$14,879 in the capital projects fund. The amount available as an advance at June 30, 2009 was \$305,411 in the general fund, \$9,889 in the debt service fund, and \$13,329 in the capital projects fund.

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

The assessed property values upon which the fiscal year 2010 taxes were collected are:

Collections	2009 Second Half		2010 First Half	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$362,449,480	98.17%	\$367,917,540	97.96%
Public Utility Personal	<u>6,771,780</u>	<u>1.83%</u>	<u>7,671,830</u>	<u>2.04%</u>
Total Valuation	<u>\$369,221,260</u>	<u>100.00%</u>	<u>\$375,589,370</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 \$25.70		 \$25.70	

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has a comprehensive property and casualty policy with Ohio Casualty. The deductible is \$1,000 per incident on property and \$250 per incident on equipment. All vehicles are insured by Ohio Casualty and have a \$100 deductible on comprehensive claims and \$500 deductible for collisions. All board members, administrators and employees are covered under a school district liability policy with Ohio Casualty. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per aggregate. The Treasurer is covered under a surety bond in the amount of \$50,000.

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

The District maintains a health insurance plan for its employees. The monthly insurance premiums are paid to the Plan Administrator, Aultcare Corporation, and recorded as an expense on the District's books. The District accounts for this activity in an Internal Service Fund. The plan includes stop loss coverage with a limit of \$125,000 per individual and \$2,230,236 in the aggregate, per year.

The claims liability of \$96,395 reported in the fund at June 30, 2010, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

	Balance at Beginning of <u>Year</u>	<u>Claims</u>	<u>Payments</u>	Balance at End of <u>Year</u>
June 30, 2010	\$178,392	\$1,837,171	\$1,919,168	\$ 96,395
June 30, 2009	\$117,049	\$1,868,097	\$1,806,754	\$ 178,392

NOTE 10 DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. For fiscal year 2010, 12.78 percent of annual covered salary was allocated to pension and death benefits. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts by the SERS Retirement Board. The Retirement Board acting with the advice of their actuary, allocate the employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the system. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$338,601, \$227,031, and \$210,559, respectively; 69.2 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

B. STATE TEACHERS RETIREMENT SYSTEM

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available stand-alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan 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, 2010, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

The District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,125,771, \$1,095,970, and \$1,093,546 respectively; 83.4 percent has been contributed for fiscal year 2010, and 100 percent for the fiscal year 2009 and 2008. Contributions to the DC and combined plans for fiscal year 2010 were \$17,525 made by the school district and \$23,515 made by the plan members.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2010, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, OH 43215-3746.

State Statute permits SERS to fund health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, the amount was \$47,100.

Active employees do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$59,288, \$149,120, and \$139,124 respectively; 14.22 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2010 (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$20,136, \$18,732, and \$15,171 respectively; 69.2 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. STATE TEACHERS RETIREMENT SYSTEM

The District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7787.

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009 and 2008 were \$85,250, \$85,072, and \$85,626 respectively; 83.4 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 12 NON-CASH TRANSACTIONS

The District receives food commodities for its food service obligations. The revenue recognized in intergovernmental income from the non-cash commodities was \$112,744.

NOTE 13 CONTINGENCIES

GRANTS

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2010.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

NOTE 14 STATUTORY RESERVES

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

During the fiscal year ended June 30, 2010, the reserve activity (GAAP basis) was as follows:

	Textbooks	Capital Improvements
Set Aside Reserve Balance, June 30, 2009	\$0	\$0
Current Year Set Aside Requirement	297,123	297,123
Contributions in Excess of the Current Fiscal Year		
Set Aside Requirement	0	0
Current Year Qualifying Expenditures	(215,643)	(44,871)
Excess Qualified Expenditures from Prior Years	(107,312)	0
Current Year Offsets	0	(318,676)
Waiver Granted by the Department of Education	0	0
Prior Year Offsets from Bond Proceeds	0	0
Total	\$ (25,832)	\$ (66,424)
Balance Carried Forward to Fiscal Year 2011	\$ (25,832)	\$0
Set Aside Reserve Balance June 30, 2010	\$0	\$0

The amount of qualifying expenditures exceeding the set-aside requirement in the Textbook Reserve may be carried forward to reduce the set-aside requirement for future years. Excess expenditures in the Capital Maintenance Reserve set aside may not be carried forward to reduce future years' requirements. However, in both reserves, set aside amounts not spent must be carried forward to be included in future years' requirements.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

NOTE 15 JOINTLY GOVERNED ORGANIZATIONS

A. TRI-COUNTY COMPUTER SERVICE ASSOCIATION (TCCSA)

TCCSA is a jointly governed organization comprised of 28 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these district support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri County Educational Service Center, located in Wooster, Ohio, which serves as fiscal agent. During fiscal year 2010, the District paid approximately \$113,435 in administrative fees to the Tri-County Educational Service Center.

B. BUCKEYE CAREER CENTER (Career Center)

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The Board controls the financial activity of the Career center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and measurable equity interest exists. During fiscal year 2010, no monies were paid to the Career Center by the District.

NOTE 16 OPERATING LEASES – LESSEE DISCLOSURE

The District has entered into multiple operating lease agreements for equipment which expire at various times in 2012 and 2014. All equipment s leased for up to five years. Equipment operating lease expenses totaled \$24,197 in 2010.

The agreement provides for annual lease payments as follows:

<u>Year</u>	<u>Amount</u>
2011	\$19,892
2012	19,892
2013	8,814
2014	<u>8,814</u>
Total Minimum Lease Payments	\$57,412

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2010
(Continued)

NOTE 17 COMPLIANCE

Deficit Fund Balances – Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Title VI-B	\$12,082
Title II-A Grant	<u>10,850</u>
Total	\$22,932

The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

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EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	YEAR	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>(Passed Through Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	2010	84.010	\$923,076		\$916,235	
Title I Grants to Local Educational Agencies	2009		100,000		149,545	
ARRA - Title I Grants to Local Educational Agencies	2010	84.389	232,767		208,266	
Total Title I Grants to Local Educational Agencies			1,255,843		1,274,046	
Special Education Grants to States	2010	84.027	336,489		316,956	
Special Education Grants to States	2009		55,000		57,929	
ARRA - Special Education Grants to States	2010	84.391	220,859		196,527	
Total Special Education Grants to States			612,348		571,412	
Safe and Drug Free Schools and Communities State Grants	2010	84.186	13,057		13,057	
ARRA - State Fiscal Stabilization Fund - Education State Grants	2010	84.394	287,071		287,071	
Education Technology State Grants	2010	84.318	9,246		8,250	
English Language Acquisition Grants	2010	84.365	85,624		80,498	
English Language Acquisition Grants	2009		24,756		33,797	
Total English Language Acquisition Grants			110,380		114,295	
Improving Teacher Quality State Grants	2010	84.367	201,824		198,362	
Improving Teacher Quality State Grants	2009		32,500		34,064	
Total Improving Teacher Quality State Grants			234,324		232,426	
Total U.S. Department of Education			2,522,269		2,500,557	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>(Passed Through Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Program):						
National School Lunch Program	2010	10.555		\$112,794		\$104,182
Cash Assistance:						
National School Lunch Program	2010	10.555	266,420		266,420	
Total U.S. Department of Agriculture			266,420	112,794	266,420	104,182
Total			<u>\$2,788,689</u>	<u>\$112,794</u>	<u>\$2,766,977</u>	<u>\$104,182</u>

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

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the East Holmes Local School District (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the East Holmes Local School District, Holmes County, Ohio (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2010. 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 as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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*.

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 7, 2010.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 7, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the East Holmes Local School District, Holmes County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the East Holmes Local School District's major federal programs for the year ended June 30, 2010. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 East Holmes Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 7, 2010.

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



Mary Taylor, CPA
Auditor of State

December 7, 2010

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control 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 weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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):	Special Education Cluster (includes ARRA) – CFDA #84.027 and #84.391 Title I Cluster (includes ARRA) – CFDA #84.010, #84.389 State Fiscal Stabilization Fund (ARRA Program) - #84.394
(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.

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Mary Taylor, CPA
Auditor of State

EAST HOLMES LOCAL SCHOOL DISTRICT

HOLMES COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 27, 2011**