

East Holmes Local School District  
Holmes County, Ohio

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2012





# Dave Yost • Auditor of State

Board of Education  
East Holmes Local School District  
6108 CR 77  
Berlin, Ohio 44610

We have reviewed the *Independent Auditor's Report* of the East Holmes Local School District, Holmes County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 22, 2013

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**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY, OHIO**

**JUNE 30, 2012**

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**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY, OHIO**

**JUNE 30, 2012**

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December 14, 2012

To the Board of Education  
East Holmes Local School District  
6108 CR 77  
Berlin, Ohio 44610

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the School District, as of June 30, 2012, and the respective changes in financial position and the cash flows, where applicable, and the respective budgetary comparison for the general fund, thereof 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 14, 2012 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rea & Associates, Inc.*

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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The discussion and analysis of the 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, 2012. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2012 are as follows:

- Net assets decreased \$881,070, which represents a 6 percent decrease from 2011.
- Capital assets decreased \$557,196 during fiscal year 2012.
- During the year, outstanding debt decreased from \$1,884,485 to \$1,738,009 due to principal payments made by the School District

***Using this Annual Report***

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

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

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

*Statement of Net Assets and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

***Fund Financial Statements***

The major funds financial statements begin on page 13. Fund financial reports provide detailed information about the School District's major funds. 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 in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Fund*** The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 18.

***Reporting the School District's Fiduciary Responsibilities***

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 21. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**East Holmes Local School District**  
**Holmes County, Ohio**  
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**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011:

**Table 1**  
**Net Assets**

	Governmental Activities	
	2012	2011
<b>Assets</b>		
Current and Other Assets	\$ 15,952,253	\$ 16,480,567
Capital Assets	10,123,701	10,680,897
<i>Total Assets</i>	<i>26,075,954</i>	<i>27,161,464</i>
<b>Liabilities</b>		
Other Liabilities	10,135,194	10,116,379
Long-Term Liabilities	2,999,043	3,222,298
<i>Total Liabilities</i>	<i>13,134,237</i>	<i>13,338,677</i>
<b>Net Assets</b>		
Invested in Capital Assets,		
Net of Debt	8,533,698	8,909,175
Restricted	2,219,850	2,309,975
Unrestricted	2,188,169	2,603,637
<i>Total Net Assets</i>	<i>\$ 12,941,717</i>	<i>\$ 13,822,787</i>

At year end, capital assets represented 39 percent of total assets. Capital assets include, land, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. Capital assets, net of related debt were \$8,533,698 at June 30, 2012. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$2,219,850 or 17 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net assets of \$2,188,169 may be used to meet the government's ongoing obligations to students and creditors.

The \$528,314 decrease in current and other assets is primarily due to decreases in cash and intergovernmental receivable. Cash decreased due to deficit spending during the year and intergovernmental receivable decreased due to the completion of the ARRA programs. Long-term liabilities decreased due to principal payments made on debt during the year.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Management's Discussion and Analysis*  
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Table 2 shows the changes in net assets for fiscal year 2012 and 2011.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities	
	2012	2011
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,559,049	\$ 1,548,506
Operating Grants	2,381,381	2,754,940
<i>Total Program Revenues</i>	<u>3,940,430</u>	<u>4,303,446</u>
<i>General Revenues:</i>		
Property Taxes	8,236,187	8,245,266
Grants and Entitlements Not Restricted	6,059,601	7,004,684
Other	119,974	145,387
<i>Total General Revenues</i>	<u>14,415,762</u>	<u>15,395,337</u>
<i>Total Revenues</i>	<u>18,356,192</u>	<u>19,698,783</u>
<b>Program Expenses</b>		
Instruction:		
Regular	8,202,969	8,329,423
Special	2,152,388	2,298,310
Vocational	399,883	436,706
Support Services:		
Pupils	925,317	885,858
Instructional Staff	966,231	1,003,799
Board of Education	26,850	27,526
Administration	1,560,002	1,744,704
Fiscal	502,528	474,112
Operation and Maintenance of Plant	1,507,213	1,559,570
Pupil Transportation	1,308,884	1,333,257
Central	126,607	118,767
Operation of Non-Instructional Services:		
Food Service Operations	831,447	857,501
Extracurricular Activities	619,254	558,115
Debt Service:		
Interest and Fiscal Charges	107,689	97,494
<i>Total Expenses</i>	<u>19,237,262</u>	<u>19,725,142</u>
<i>Increase (Decrease) in Net Assets</i>	(881,070)	(26,359)
<i>Net Assets at Beginning of Year</i>	<u>13,822,787</u>	<u>13,849,146</u>
<i>Net Assets at End of Year</i>	<u>\$ 12,941,717</u>	<u>\$ 13,822,787</u>

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The decrease in operating grants is due to the expiration of the American Recovery and Reinvestment Act grants at the end of the 2011 grant year. Grants and entitlements not restricted decreased due to reductions in state fiscal stabilization funds and tangible personal property reimbursements.

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

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2012	2011	2012	2011
Instruction:				
Regular	\$ 8,202,969	8,329,423	\$ (7,315,582)	\$ (7,294,053)
Special	2,152,388	2,298,310	(943,228)	(965,534)
Vocational	399,883	436,706	(389,737)	(362,030)
Support Services:				
Pupils	925,317	885,858	(507,333)	(525,250)
Instructional Staff	966,231	1,003,799	(641,445)	(651,168)
Board of Education	26,850	27,526	(26,850)	(27,526)
Administration	1,560,002	1,744,704	(1,459,911)	(1,660,360)
Fiscal	502,528	474,112	(502,528)	(474,112)
Operation and Maintenance of Plant	1,507,213	1,559,570	(1,497,729)	(1,551,279)
Pupil Transportation	1,308,884	1,333,257	(1,307,710)	(1,305,235)
Central	126,607	118,767	(108,447)	(103,924)
Operation of Non-Instructional Services:				
Food Service Operations	831,447	857,501	(82,517)	(70,444)
Extracurricular Activities	619,254	558,115	(406,126)	(333,287)
Debt Service:				
Interest and Fiscal Charges	107,689	97,494	(107,689)	(97,494)
<i>Total Expenses</i>	<u>\$ 19,237,262</u>	<u>\$ 19,725,142</u>	<u>\$ (15,296,832)</u>	<u>\$ (15,421,696)</u>

The dependence upon general revenues for governmental activities is apparent. Over 80 percent of governmental activities are supported through taxes and other general revenues; such revenues are 79 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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***Governmental Funds***

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, including other financing sources, of \$18,699,501 and expenditures, including other financing uses, of \$19,060,123 for the fiscal year. The net change in fund balances for the fiscal year was a decrease of \$360,622 for all governmental funds with the most significant decrease in the general fund.

The general fund's net change in fund balance for fiscal year 2012 was a decrease of \$607,818, primarily caused by normal increases in personnel costs and an operating transfer to the internal service fund.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2012, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual budget basis revenue was \$14,480,414, lower than the final budget basis revenue by \$82,086. Most of this difference is due to an overestimation of tuition and fees and miscellaneous revenue.

Final appropriations of \$15,897,118 were \$699,082 higher than the actual expenditures of \$15,198,036, as the School District's administration decreased expenditures wherever possible during the year.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2012, the School District had \$10,123,701 invested in capital assets. Table 4 shows fiscal year 2012 balances compared with 2011.

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

	Governmental Activities	
	2012	2011
Land	\$ 1,067,816	\$ 1,067,816
Land Improvements	999,372	1,050,589
Buildings and Building Improvements	7,221,167	7,589,505
Furniture, Fixtures and Equipment	406,165	461,103
Vehicles	429,181	511,884
<i>Totals</i>	<u>\$ 10,123,701</u>	<u>\$ 10,680,897</u>

The \$557,196 decrease in capital assets was attributable to current year depreciation and disposals exceeding additional purchases. See Note 5 for more information about the capital assets of the School District.

**Debt**

At June 30, 2012, the School District had \$1,590,000 in debt principal outstanding. See Note 7 for additional details. Table 5 summarizes bonds outstanding.

**(Table 5)**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2012	2011
2007 Refunding Bonds		
General Obligation Bonds	\$ 1,525,000	\$ 1,715,000
Capital Appreciation Bonds	65,000	65,000
Accretion on Capital Appreciation Bonds	148,009	104,485
<i>Total</i>	<u>\$ 1,738,009</u>	<u>\$ 1,884,485</u>

***District Outlook***

East Holmes Local School District is in a period of financial adjustment. 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.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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The challenges faced by the School District are both 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 has been quite strong. As mentioned earlier, the East Holmes voters had renewed a \$550,000 emergency levy in May 2011, 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 2017 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2017 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 School 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. On May 3, 2011 and November 8, 2011 voters rejected an emergency levy request for 3.82 mills (\$1,500,000). On March 6, 2012 and August 7, 2012, the voters rejected an emergency levy to provide \$1,500,000 (3.77 mills) in additional operating revenue for the School District. The Board of Education and administration has responded to these defeats by reducing expenditures by approximately \$1,000,000 during the past 18 months.

Externally, the state is using a bridge formula to fund schools until they can develop a new funding mechanism. Due to the current state and federal economic problems, the School District will actually be losing state funding during the 2012 and 2013 fiscal years.

With 44.9 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.

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

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Net Assets*  
*June 30, 2012*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 6,396,299
Cash and Cash Equivalents in Segregated Accounts	376,785
Inventory Held For Resale	35,498
Materials and Supplies Inventory	98,665
Receivables:	
Accrued Interest	529
Accounts	12,953
Intergovernmental	942,866
Property Taxes	8,039,241
Prepaid Items	10,094
Deferred Charges	39,323
Nondepreciable Capital Assets	1,067,816
Depreciable Capital Assets (Net)	9,055,885
<i>Total Assets</i>	26,075,954
<b>Liabilities</b>	
Accounts Payable	81,459
Accrued Wages and Benefits	1,716,490
Contracts Payable	9,125
Intergovernmental Payable	334,580
Accrued Vacation Leave Payable	25,712
Matured Compensated Absences Payable	126,995
Accrued Interest Payable	5,083
Claims Payable	295,457
Deferred Revenue	7,540,293
Long Term Liabilities:	
Due Within One Year	315,497
Due In More Than One Year	2,683,546
<i>Total Liabilities</i>	13,134,237
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	8,533,698
Restricted For:	
Capital Outlay	1,105,507
Debt Service	398,054
Other Purposes	716,289
Unrestricted	2,188,169
<i>Total Net Assets</i>	\$ 12,941,717

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 8,202,969	\$ 612,795	\$ 274,592	\$ (7,315,582)
Special	2,152,388	84,954	1,124,206	(943,228)
Vocational	399,883	0	10,146	(389,737)
Support Services:				
Pupils	925,317	250,603	167,381	(507,333)
Instructional Staff	966,231	198	324,588	(641,445)
Board of Education	26,850	0	0	(26,850)
Administration	1,560,002	0	100,091	(1,459,911)
Fiscal	502,528	0	0	(502,528)
Operation and Maintenance of Plant	1,507,213	9,484	0	(1,497,729)
Pupil Transportation	1,308,884	0	1,174	(1,307,710)
Central	126,607	17,734	426	(108,447)
Operation of Non-Instructional Services:				
Food Service Operations	831,447	375,301	373,629	(82,517)
Extracurricular Activities	619,254	207,980	5,148	(406,126)
Debt Service:				
Interest and Fiscal Charges	107,689	0	0	(107,689)
<b>Total</b>	<u>\$ 19,237,262</u>	<u>\$ 1,559,049</u>	<u>\$ 2,381,381</u>	<u>(15,296,832)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	7,670,546
Debt Service	274,347
Capital Outlay	291,294
Grants and Entitlements Not Restricted to Specific Programs	6,059,601
Investment Earnings	42,494
Miscellaneous	77,480

*Total General Revenues* 14,415,762

*Change in Net Assets* (881,070)

*Net Assets Beginning of Year* 13,822,787

*Net Assets End of Year* \$ 12,941,717

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2012*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Investments	\$ 4,616,483	\$ 1,779,816	\$ 6,396,299
Inventory Held For Resale	0	35,498	35,498
Materials and Supplies Inventory	98,273	392	98,665
Receivables:			
Accrued Interest	529	0	529
Accounts	6,096	6,857	12,953
Intergovernmental	3,320	939,546	942,866
Property Taxes	7,480,489	558,752	8,039,241
Prepaid Items	10,094	0	10,094
<i>Total Assets</i>	<u>\$ 12,215,284</u>	<u>\$ 3,320,861</u>	<u>\$ 15,536,145</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 63,357	\$ 18,102	\$ 81,459
Accrued Wages and Benefits	1,385,526	330,964	1,716,490
Contracts Payable	2,195	6,930	9,125
Intergovernmental Payable	265,037	69,543	334,580
Matured Compensated Absences Payable	126,522	473	126,995
Deferred Revenue	7,129,864	1,076,536	8,206,400
<i>Total Liabilities</i>	<u>8,972,501</u>	<u>1,502,548</u>	<u>10,475,049</u>
<b>Fund Balances</b>			
Nonspendable	108,367	35,890	144,257
Restricted	0	1,843,465	1,843,465
Assigned	675,622	0	675,622
Unassigned	2,458,794	(61,042)	2,397,752
<i>Total Fund Balances</i>	<u>3,242,783</u>	<u>1,818,313</u>	<u>5,061,096</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 12,215,284</u>	<u>\$ 3,320,861</u>	<u>\$ 15,536,145</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2012*

<b>Total Governmental Fund Balances</b>		\$ 5,061,096
 <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.		10,123,701
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 122,107	
Intergovernmental	<u>544,000</u>	
Total		666,107
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.		81,328
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.		39,323
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(5,083)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(1,525,000)	
Capital Appreciation Bonds	(65,000)	
Bond Premium	(150,249)	
Refunding Loss	110,923	
Accretion of Interest - Capital Appreciation Bonds	(148,009)	
Accrued Vacation Payable	(25,712)	
Compensated Absences	<u>(1,221,708)</u>	
Total		<u>(3,024,755)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 12,941,717</u></u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
For the Fiscal Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property and Other Local Taxes	\$ 7,656,174	\$ 564,574	\$ 8,220,748
Intergovernmental	5,947,489	2,830,819	8,778,308
Investment Income	42,494	235	42,729
Tuition and Fees	697,947	0	697,947
Extracurricular Activities	274,521	162,624	437,145
Rentals	9,484	0	9,484
Charges for Services	0	375,301	375,301
Contributions and Donations	6,581	5,620	12,201
Miscellaneous	77,180	39,473	116,653
<i>Total Revenues</i>	<u>14,711,870</u>	<u>3,978,646</u>	<u>18,690,516</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	7,399,188	422,032	7,821,220
Special	1,030,208	1,107,979	2,138,187
Vocational	383,235	41,836	425,071
Support Services:			
Pupils	774,764	145,369	920,133
Instructional Staff	585,877	337,806	923,683
Board of Education	26,850	0	26,850
Administration	1,454,029	86,195	1,540,224
Fiscal	483,528	15,872	499,400
Operation and Maintenance of Plant	1,426,922	858	1,427,780
Pupil Transportation	1,184,444	25,977	1,210,421
Central	124,259	2,348	126,607
Extracurricular Activities	252,413	205,596	458,009
Operation of Non-Instructional Services:			
Food Service Operations	0	811,771	811,771
Capital Outlay	2,956	273,011	275,967
Debt Service:			
Principal Retirement	0	190,000	190,000
Interest and Fiscal Charges	0	64,800	64,800
<i>Total Expenditures</i>	<u>15,128,673</u>	<u>3,731,450</u>	<u>18,860,123</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(416,803)</u>	<u>247,196</u>	<u>(169,607)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Capital Assets	8,985	0	8,985
Transfers Out	(200,000)	0	(200,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(191,015)</u>	<u>0</u>	<u>(191,015)</u>
<i>Net Change in Fund Balance</i>	(607,818)	247,196	(360,622)
<i>Fund Balances Beginning of Year</i>	<u>3,850,601</u>	<u>1,571,117</u>	<u>5,421,718</u>
<i>Fund Balances End of Year</i>	<u>\$ 3,242,783</u>	<u>\$ 1,818,313</u>	<u>\$ 5,061,096</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District  
Holmes County, Ohio**

*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, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (360,622)

*Amounts reported for governmental activities in the  
statement of activities are different because:*

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

Capital Asset Additions	\$ 129,898	
Current Year Depreciation	<u>(667,761)</u>	(537,863)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(19,333)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	15,441	
Intergovernmental	<u>(350,563)</u>	(335,122)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

190,000

In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.

Accrued Interest Payable	634	
Amortization of Issuance Costs	(4,916)	
Amortization of Premium on Bonds	18,781	
Amortization of Refunding Loss	<u>(13,866)</u>	633

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

129,711

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

Compensated Absences	71,862	
Accrued Vacation Payable	<u>23,188</u>	95,050

Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds.

(43,524)

*Change in Net Assets of Governmental Activities*

\$ (881,070)

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 7,700,000	\$ 7,726,000	\$ 7,723,382	\$ (2,618)
Intergovernmental	5,687,500	5,967,500	5,952,577	(14,923)
Investment Income	125,000	53,500	42,969	(10,531)
Tuition and Fees	677,500	712,500	692,826	(19,674)
Rentals	15,000	15,000	9,484	(5,516)
Miscellaneous	87,500	88,000	59,176	(28,824)
<i>Total Revenues</i>	<u>14,292,500</u>	<u>14,562,500</u>	<u>14,480,414</u>	<u>(82,086)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,764,998	7,749,698	7,423,834	325,864
Special	1,101,331	1,139,436	1,059,796	79,640
Vocational	377,637	392,637	385,923	6,714
Support Services:				
Pupils	552,120	552,120	524,666	27,454
Instructional Staff	662,950	678,250	626,979	51,271
Board of Education	33,425	33,425	26,867	6,558
Administration	1,572,479	1,572,479	1,528,785	43,694
Fiscal	495,134	497,634	490,629	7,005
Operation and Maintenance of Plant	1,668,421	1,668,421	1,537,841	130,580
Pupil Transportation	1,234,989	1,234,989	1,230,491	4,498
Central	118,048	118,048	110,755	7,293
Extracurricular Activities	249,981	249,981	247,901	2,080
Capital Outlay	12,500	10,000	3,569	6,431
<i>Total Expenditures</i>	<u>15,844,013</u>	<u>15,897,118</u>	<u>15,198,036</u>	<u>699,082</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,551,513)</u>	<u>(1,334,618)</u>	<u>(717,622)</u>	<u>616,996</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	5,000	10,000	8,985	(1,015)
Transfers Out	0	(200,000)	(200,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>5,000</u>	<u>(190,000)</u>	<u>(191,015)</u>	<u>(1,015)</u>
<i>Net Change in Fund Balance</i>	<u>(1,546,513)</u>	<u>(1,524,618)</u>	<u>(908,637)</u>	<u>615,981</u>
<i>Fund Balance Beginning of Year</i>	4,923,789	4,923,789	4,923,789	0
Prior Year Encumbrances Appropriated	212,358	212,358	212,358	0
<i>Fund Balance End of Year</i>	<u>\$ 3,589,634</u>	<u>\$ 3,611,529</u>	<u>\$ 4,227,510</u>	<u>\$ 615,981</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2012*

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	<u>Governmental Activities - Internal Service Fund</u>
<b>Assets</b>	
<i>Current Assets</i>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$ 376,785</u>
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Claims Payable	<u>295,457</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$ 81,328</u></u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Governmental Activities - Internal Service Fund
<b>Operating Revenue</b>	
Charges for Services	\$ 2,420,333
<b>Operating Expenses</b>	
Purchased Services	317,043
Claims	2,173,579
<i>Total Operating Expenses</i>	2,490,622
<i>Loss Before Transfers</i>	(70,289)
Transfers In	200,000
<i>Change in Net Assets</i>	129,711
<i>Net Assets Beginning of Year</i>	(48,383)
<i>Net Assets End of Year</i>	\$ 81,328

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Fund
<hr/> <hr/>	
<i>Increase in Cash and Cash Equivalents</i>	
<b>Cash Flows From Operating Activities</b>	
Cash Received for Interfund Services	\$ 2,420,333
Cash Paid for Goods and Services	(317,043)
Cash Paid for Claims	(2,101,815)
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	1,475
	<hr/>
<b>Cash Flows From Non-Capital Financing Activities</b>	
Transfers from Other Funds	200,000
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	201,475
<i>Cash and Cash Equivalents Beginning of Year</i>	175,310
	<hr/>
<i>Cash and Cash Equivalents End of Year</i>	\$ 376,785
	<hr/> <hr/>
<b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</b>	
Operating Loss	\$ (70,289)
Adjustments:	
Increase in Claims Payable	71,764
	<hr/>
<i>Total Adjustments</i>	71,764
	<hr/>
<i>Net Cash Provided By Operating Activities</i>	\$ 1,475
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2012*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 20,700
	<u>20,700</u>
<b>Liabilities</b>	
Accounts Payable	\$ 475
Undistributed Monies	7,562
Due to Students	12,663
	<u>12,663</u>
<i>Total Liabilities</i>	<u>\$ 20,700</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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

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

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

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

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

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

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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**A. BASIS OF PRESENTATION**

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

**Government-wide Financial Statements** The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

**B. FUND ACCOUNTING**

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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

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

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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

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

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

**C. MEASUREMENT FOCUS**

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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

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

***D. BASIS OF ACCOUNTING***

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

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

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

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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**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, 2012, but which were levied to finance fiscal year 2013 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.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2012.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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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 INVESTMENTS*

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

During fiscal year 2012, 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, 2012. 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 2012 amounted to \$42,494, which includes \$12,421 assigned from other School District funds.

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

*G. PREPAID ITEMS*

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

*H. INVENTORY*

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

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
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*I. CAPITAL ASSETS*

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

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

All capital assets except land 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 Building Improvements	8 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	7 - 10 years

*J. 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.

*K. 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.

**East Holmes Local School District**  
**Holmes County, Ohio**  
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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.

*L. NET ASSETS*

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

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

*M. FUND BALANCE*

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, the School District classifies its fund balance based on the purpose for which the resources were received and the level of the constraint placed on the resources. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance category include amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**East Holmes Local School District**  
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*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

*Unassigned* – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District applies restricted resources first when expenditures are incurred for purpose for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

*N. OPERATING REVENUES AND EXPENSES*

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

*O. 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.

*P. 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 2012.

**East Holmes Local School District**  
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*Q. 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).
- D. As part of Governmental Accounting Standards Board No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies and public school support funds.

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**

GAAP Basis	\$ (607,818)
Net adjustment for revenue accruals	67,215
Net adjustment for expenditure accruals	(633,518)
Funds budgeted elsewhere	(10,055)
Adjustment for encumbrances	<u>275,539</u>
Budget Basis	<u>\$ (908,637)</u>

**East Holmes Local School District**  
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**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 investments." The amount held at fiscal year end for the Employee Benefit Self Insurance Fund was \$376,785. 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 School District.

State statues classify monies held by the School District into three categories.

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

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

Interim deposits are 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 to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;

**East Holmes Local School District**  
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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2012, the School District and public depositories complied with the provisions of these statutes.

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

At fiscal year-end, the carrying amount of the School District's deposits was \$6,682,351, which includes \$5,540 cash on hand. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2012, \$6,219,565 of the School District's bank balance of \$6,756,561 was exposed to custodial risk as discussed above, while \$536,996 was covered by Federal Deposit Insurance Corporation.

**East Holmes Local School District**  
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**Investments** As of June 30, 2012, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity 6 Months or Less
STAROhio	\$ 111,433	\$ 111,433

**Credit Risk** STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days and carries a rating of AAAM rating by Standard & Poor's.

**Concentration of Credit Risk** The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2012:

Investment Type	Fair Value	Percent of Total
STAROhio	\$ 111,433	100%

**Interest Rate Risk** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District.

**Custodial Credit Risk** For an investment, custodial risk is that risk that, in the event of the failure of the counterparty, the School District will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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**NOTE 5      CAPITAL ASSETS AND ACCUMULATED DEPRECIATION**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance <u>06/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>06/30/2012</u>
<b>Governmental Activities</b>				
<i>Capital Assets not being depreciated</i>				
Land	<u>\$ 1,067,816</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,067,816</u>
<i>Capital Assets being depreciated</i>				
Land Improvements	1,645,305	23,624	0	1,668,929
Buildings and Building Improvements	15,782,825	31,636	(2,679)	15,811,782
Furniture, Fixtures and Equipment	1,780,857	48,278	(82,853)	1,746,282
Vehicles	<u>1,595,958</u>	<u>26,360</u>	<u>(15,830)</u>	<u>1,606,488</u>
<i>Total Capital Assets being depreciated</i>	<u>20,804,945</u>	<u>129,898</u>	<u>(101,362)</u>	<u>20,833,481</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(594,716)	(74,841)	0	(669,557)
Buildings and Building Improvements	(8,193,320)	(397,890)	595	(8,590,615)
Furniture, Fixtures and Equipment	(1,319,754)	(85,967)	65,604	(1,340,117)
Vehicles	<u>(1,084,074)</u>	<u>(109,063)</u>	<u>15,830</u>	<u>(1,177,307)</u>
<i>Total Accumulated Depreciation</i>	<u>(11,191,864)</u>	<u>(667,761) *</u>	<u>82,029</u>	<u>(11,777,596)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>9,613,081</u>	<u>(537,863)</u>	<u>(19,333)</u>	<u>9,055,885</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 10,680,897</u>	<u>\$ (537,863)</u>	<u>\$ (19,333)</u>	<u>\$ 10,123,701</u>

**East Holmes Local School District**  
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\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 237,127
Special	27,371
Vocational	12,524
Support Services:	
Pupils	3,633
Instructional Staff	33,717
Administration	23,888
Fiscal Services	4,374
Operation and Maintenance of Plant	39,763
Pupil Transportation	102,747
Operation of Non-Instructional Services:	
Food Service Operations	27,052
Extracurricular Activities	155,565
Total Depreciation Expense	\$ 667,761

**NOTE 6      RECEIVABLES**

Receivables at June 30, 2012, consisted of taxes, intergovernmental, accrued interest and accounts receivable. All receivables are considered collectible in full due to the ability for foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

**NOTE 7      GENERAL LONG-TERM OBLIGATIONS**

	Principal Outstanding 06/30/2011	Additions	Reductions	Principal Outstanding 06/30/2012	Amount Due in One Year
2007 Refunding Bonds (4.0%)					
General Obligation Bonds	\$ 1,715,000	\$ 0	\$ (190,000)	\$ 1,525,000	\$ 195,000
Capital Appreciation Bonds	65,000	0	0	65,000	0
Accretion on Capital Appreciation Bonds	104,485	0	43,524	148,009	0
Premium	169,030	0	(18,781)	150,249	0
Accounting Loss	(124,789)	0	13,866	(110,923)	0
<i>Total Refunding Bonds</i>	1,928,726	0	(151,391)	1,777,335	195,000
Compensated Absences	1,293,570	153,496	(225,358)	1,221,708	120,497
<i>Total Governmental Activities Long-Term Liabilities</i>	\$ 3,222,296	\$ 153,496	\$ (376,749)	\$ 2,999,043	\$ 315,497

**East Holmes Local School District**  
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Compensated absences will be paid from the fund in which the employee's salaries are paid. These funds are the General Fund, the Food Service Operations Fund and Federal grants funds, including IDEA-B, Title I, Title II-A and Title III.

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. The bonds are being repaid from the bond retirement fund.

In March, 2007, the School 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 2012 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 2012 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 2012 was \$13,866. 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 2012, \$43,524 was accreted for a total bond liability of \$213,009.

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2012, are as follows:

	2007 Refunding Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Interest/ Accretion
2013	\$ 195,000	\$ 57,100	\$ 0	\$ 0	\$ 195,000	\$ 57,100
2014	205,000	49,100	0	0	205,000	49,100
2015	0	45,000	36,198	173,802	36,198	218,802
2016	0	45,000	28,802	181,198	28,802	226,198
2017	210,000	40,800	0	0	210,000	40,800
2018-2021	915,000	246,100	0	0	915,000	246,100
<i>Total</i>	<u>\$ 1,525,000</u>	<u>\$ 483,100</u>	<u>\$ 65,000</u>	<u>\$ 355,000</u>	<u>\$ 1,590,000</u>	<u>\$ 838,100</u>

**East Holmes Local School District**  
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**NOTE 8**      **PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, 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 semiannually, 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 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 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.

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 calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Holmes and Wayne Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012 was \$350,625 in the general fund, \$11,362 in the bond retirement debt service fund, and \$14,854 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2011, was \$417,833 in the general fund, \$13,526 in the bond retirement debt service fund, and \$17,724 in the permanent improvement capital projects fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 385,382,530	98%	\$ 390,384,850	98%
Public Utility Personal Property	7,644,580	2%	7,791,050	2%
<b>Total</b>	<b>\$ 393,027,110</b>	<b>100%</b>	<b>\$ 398,175,900</b>	<b>100%</b>
 Full Tax Rate Per \$1,000 of assessed valuation	 \$ 25.60		 \$ 25.60	

**NOTE 9      RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with 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 School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

The School 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 School District's books. The School 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 \$2,431,770 in the aggregate, per year.

The claims liability of \$295,457 reported in the fund at June 30, 2012, 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.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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	<u>Balance</u>		<u>Current</u>		<u>Claims</u>		<u>Balance</u>
	<u>Beginning of Year</u>		<u>Year Claims</u>		<u>Payments</u>		<u>End of Year</u>
2011	\$ 96,395	\$	2,268,350	\$	2,141,052	\$	223,693
2012	223,693		2,173,579		2,101,815		295,457

**NOTE 10      DEFINED BENEFIT PENSION PLANS**

**A.      SCHOOL EMPLOYEES RETIREMENT SYSTEM**

Plan Description - The School District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan 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. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$310,025, \$329,084 and \$338,601, respectively; 72 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010.

**B.      STATE TEACHERS RETIREMENT SYSTEM**

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,061,314, \$1,115,814 and \$1,125,771, respectively; 84 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$21,958 made by the School District and \$15,684 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, 2012, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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

A.      SCHOOL EMPLOYEES RETIREMENT SYSTEM

Plan Description – The School 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, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. 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, Ohio 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the 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 Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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 School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$13,426, \$59,288, and \$59,288, respectively; 72 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$18,309, \$21,177, and \$20,136, respectively; 72 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**B. STATE TEACHERS RETIREMENT SYSTEM**

**Plan Description** - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free (888) 227-7877.

**Funding Policy** - 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 2012, 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, 2012, 2011, and 2010 were \$81,640, \$85,338, and \$85,250, respectively; 84 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**NOTE 12      NON-CASH TRANSACTIONS**

The School District receives food commodities for its food service obligations. The revenue recognized in intergovernmental income from the non-cash commodities was \$47,673.

**NOTE 13      CONTINGENCIES**

**A.      REVIEW OF STATEWIDE ATTENDANCE DATA**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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**B. GRANTS**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**C. LITIGATION**

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

**NOTE 14     SET-ASIDES**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	Capital Acquisition
Set-Aside Restricted Balance as of June 30, 2011	\$           0
Current Year Set-Aside Requirement	322,373
Current Year Qualifying Disbursements	(26,136)
Current Year Offsets	(367,224)
Totals	\$       (70,987)
Balance Carried Forward to Fiscal Year 2013	\$           0
Set-Aside Restricted Balance as of June 30, 2012	\$           0

Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

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**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 School Districts. Each of the governments of these School 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 School 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 School 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 2012, the School District paid approximately \$40,266 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 School District's continued participation and measurable equity interest exists. During fiscal year 2012, no monies were paid to the Career Center by the School District.

**NOTE 16      FUND DEFICITS**

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Cafeteria Fund	\$ 15,938
Title VI-B Grant	9,214

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.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2012*

**NOTE 17      FUND BALANCE**

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General	Other Governmental Funds	Total
Nonspendable for:			
Inventories	\$ 98,273	\$ 35,890	\$ 134,163
Prepaid Items	10,094	0	10,094
Total Nonspendable	108,367	35,890	144,257
Restricted for:			
Debt Service	0	399,465	399,465
Capital Outlay	0	1,100,689	1,100,689
Student Activities	0	176,674	176,674
Grant Programs	0	166,637	166,637
Total Restricted	0	1,843,465	1,843,465
Assigned for:			
Instruction	60,435	0	60,435
Support Services	163,262	0	163,262
Public School Support	100,128	0	100,128
Uniform School Supplies	5,648	0	5,648
Subsequent Year Appropriations	346,149	0	346,149
Total Assigned	675,622	0	675,622
Unassigned	2,458,794	(61,042)	2,397,752
<i>Total Fund Balance</i>	<i>\$ 3,242,783</i>	<i>\$ 1,818,313</i>	<i>\$ 5,061,096</i>

December 14, 2012

To the Board of Education  
East Holmes Local School District  
6108 CR 77  
Berlin, OH 44610

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

We have audited the governmental activities, its major fund and the aggregate remaining fund information of the East Holmes Local School District, Holmes County, Ohio (the School District), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School 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, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 to be material weaknesses, as defined above.

East Holmes Local School District  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based On an Audit of Financial Statements Performed In  
Accordance with Government Auditing Standards  
December 14, 2012  
Page 2 of 2

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the School District in a separate letter dated December 14, 2012.

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

*Hea & Associates, Inc.*

December 14, 2012

To the Board of Education  
East Holmes Local School District  
6108 CR 77  
Berlin, OH 44610

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of East Holmes Local School District, Holmes County, Ohio (the School District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

East Holmes Local School District  
Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major  
Program and Internal Control over Compliance in Accordance  
with OMB Circular A-133

December 14, 2012

Page 2

Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 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.

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

*Rea & Associates, Inc.*

**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Federal Receipts	Federal Disbursements
<b>U. S. Department of Education (Passed Through Ohio Department of Education):</b>				
<i>Title I Cluster</i>				
Title I	84.010	2011	\$ 55,000	\$ 166,914
Title I	84.010	2012	1,001,118	983,780
Title I - ARRA	84.389	2011	30,000	53,529
Total Title I			<u>1,086,118</u>	<u>1,204,223</u>
<i>Special Education Cluster</i>				
IDEA-B	84.027	2011	27,500	50,855
IDEA-B	84.027	2012	339,611	342,263
IDEA-B - ARRA	84.391	2011	15,000	35,320
Total Special Education Cluster			<u>382,111</u>	<u>428,438</u>
Title II-D	84.318	2012	828	0
Total Title II-D			<u>828</u>	<u>0</u>
Title III	84.365	2011	0	16,042
Title III	84.365	2012	172,116	112,454
Total Title III			<u>172,116</u>	<u>128,496</u>
Education Jobs	84.410	2012	231,664	231,649
Total Education Jobs			<u>231,664</u>	<u>231,649</u>
Title II-A	84.367	2011	18,000	34,481
Title II-A	84.367	2012	172,179	169,230
Total Title II-A			<u>190,179</u>	<u>203,711</u>
Race to the Top	84.395	2012	1,050	0
Total Race to the Top			<u>1,050</u>	<u>0</u>
Total U.S. Department of Education			<u>2,064,066</u>	<u>2,196,517</u>
<b>U. S. Department of Agriculture (Passed Through Ohio Department of Education):</b>				
Non-Cash Assistance:				
National School Lunch Program	10.555		47,673	47,673
Cash Assistance:				
National School Lunch Program	10.555		263,397	263,397
Total National School Lunch Program			<u>311,070</u>	<u>311,070</u>
Total U.S. Department of Agriculture			<u>311,070</u>	<u>311,070</u>
Total Federal Assistance			<u>\$ 2,375,136</u>	<u>\$ 2,507,587</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

**East Holmes Local School District  
Holmes County, Ohio**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis  
For the Fiscal Year Ended June 30, 2012*

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**Note A – National School Lunch Program**

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**Note B – Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

**Note C - Transfers**

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education's (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2012, the ODE authorized the following transfers:

CFDA Number	Program Title	Program Year	Transfer Out	Transfer In
84.010	Title I	2011	\$ 4,212	
84.010	Title I	2012		\$ 4,212
84.027	IDEA-B	2011	2,797	
84.027	IDEA-B	2012		2,797
84.365	Title III	2011	384	
84.365	Title III	2012		384

**EAST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2012**

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

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Title I Cluster CFDA: 84.010 & 84.389 - ARRA
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None were noted

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

None were noted

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# Dave Yost • 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  
FEBRUARY 5, 2013**