



**WEST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY  
SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**WEST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the West Holmes Local School District, Holmes County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the West Holmes Local School District, Holmes County, Ohio, as of June 30, 2004, and the respective changes in financial position and 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.

As described in Note 3, the District increased its capital asset capitalization threshold from \$500 to \$3,000 for the fiscal year ended June 30, 2004. In addition, the District will not capitalize textbooks.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2005 of our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

**Betty Montgomery**  
Auditor of State

March 14, 2005

**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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The discussion and analysis of the West Holmes Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- General Revenues accounted for \$19,572,681 in revenue or 88% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,719,054 or 12% of total revenues of \$22,291,735.
- Total program expenses were \$24,384,483.
- In total, net assets decreased \$2,092,748, which represents a 20% decrease from 2003.
- Outstanding debt decreased from \$14,613,831 to \$14,495,000 through the payment of bond principal.

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

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

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The government-wide financial statements begin on page 10.

**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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

*Fund Financial Statements*

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

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

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

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

The governmental fund financial statements begin on page 12.

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

The proprietary fund financial statements begin on page 17.

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

The fiduciary fund financial statement is on page 20.



**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 21.

**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 2004 compared to 2003:

**(Table 1)**  
**Net Assets**

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current and Other Assets	\$ 17,568,084	\$ 18,654,231
Capital Assets	18,712,489	19,160,316
Total Assets	36,280,573	37,814,547
<b>Liabilities</b>		
Long-Term Liabilities	16,597,391	16,489,963
Other Liabilities	11,291,919	10,840,573
Total Liabilities	27,889,310	27,330,536
<b>Net Assets</b>		
Invested in Capital Assets Net of Debt	4,056,952	4,340,110
Restricted	1,585,496	1,842,521
Unrestricted	2,748,815	4,301,380
Total Net Assets	\$ 8,391,263	\$ 10,484,011

Total assets decreased by \$1,533,974. This is due to the \$1,055,487 decrease in the District's pooled cash compared to the prior year. The net assets of the School District's governmental activities decreased \$2,092,748 or 20%. The decrease is due to increased Accrued Wages and Benefits Liability, Claims Payable, and Intergovernmental Payables and Accounts Payable. In addition, the decrease is due to the excess cash expenses over cash receipts for the fiscal year.

Table 2 shows the changes in net assets for fiscal year 2004 and 2003.

**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

**(Table 2)**  
**Governmental Activities**

	Activities	
	2004	2003
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,031,818	\$ 819,470
Operating Grants	1,661,836	1,122,365
Capital Grants	25,400	0
<i>General Revenue:</i>		
Property Taxes	7,746,886	7,537,248
Grants and Entitlements	11,558,713	10,721,954
Other	267,082	274,007
<i>Total Revenues</i>	22,291,735	20,475,044
<b>Program Expenses</b>		
Instruction	14,124,267	11,637,685
Support Services	7,637,340	7,113,652
Operation of Non-Instructional	1,023,475	994,332
Extracurricular Activities	502,766	482,784
Interest and Fiscal Charges	1,096,635	1,064,881
<i>Total Expenses</i>	24,384,483	21,293,334
Decrease in Net Assets	\$ (2,092,748)	\$ (818,290)

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2004 and 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

**(Table 3)**  
**Governmental Activities**

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 14,124,267	\$ 12,746,010	\$ 11,637,685	\$ 10,967,448
Support Services:				
Pupil and Instructional Staff	1,541,505	1,345,185	1,476,302	1,314,186
Board of Education, Administration and Fiscal	2,582,505	2,427,276	2,550,997	2,413,492
Operation and Maintenance of Plant and Central	1,884,720	1,884,720	1,849,515	1,849,515
Pupil Transportation	1,628,610	1,628,610	1,236,838	1,236,838
Operation of Non-Instructional	1,023,475	210,657	994,332	183,824
Extracurricular Activities	502,766	326,336	482,784	321,315
Interest and Fiscal Charges	1,096,635	1,096,635	1,064,881	1,064,881
<b>Total</b>	<b>\$ 24,384,483</b>	<b>\$ 21,665,429</b>	<b>\$ 21,293,334</b>	<b>\$ 19,351,499</b>

Instruction and student support services comprise 64% of governmental program expenses. Interest was 4.5%. Interest expense was attributable to the outstanding bonds. Pupil transportation and the operation and maintenance of facilities accounts for 11% of governmental program expenses.

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

**Governmental Funds**

All governmental funds had total revenues of \$22,291,735 and expenditures of \$24,384,483 for fiscal year 2004. All governmental funds had total revenues of \$20,475,044 and expenditures of \$21,293,334 for fiscal year 2003.

**General Fund**

The District's general fund balance decreased \$947,348. The decrease in fund balance can be attributed to expenditures increasing faster than revenues.

**Debt Service Fund**

The District's debt service fund balance decreased \$149,154. The decrease in fund balance can be attributed to debt service principal and interest payments exceeding revenues.

**General Fund Budgeting Highlights**

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

**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

During the course of fiscal year 2004, the School District did modify its general fund appropriations. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis revenue was \$18,232,813, over the original budget estimate of \$17,981,526. Final appropriations of \$21,009,765 were \$4,271,283 higher than the \$16,738,482 in the original appropriations. Salaries, liability/property/fleet insurance and county auditor fees (for tax collections) proved to be higher than anticipated. The School District had substantial increases in Board paid health insurance premiums as well as higher than anticipated claims.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2004, the School District had \$18,712,489 invested in land, buildings, equipment, vehicles and infrastructure. Table 4 shows fiscal year 2004 balances compared with 2003 as restated.

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

	Governmental Activities	
	2004	2003
Land	\$ 618,284	\$ 618,284
Buildings and Improvements	15,607,329	15,995,336
Furniture and Equipment	1,481,411	1,525,424
Vehicles	1,002,353	1,017,194
Infrastructure	3,112	4,078
Totals	\$ 18,712,489	\$ 19,160,316

The \$447,827 decrease in capital assets was attributable to current year depreciation expense exceeding current year purchases. See Note 9 for additional information.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2004, this amounted to \$404,772 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks.

**Debt**

At June 30, 2004, the School District had \$14,495,000 in bonds outstanding with \$440,000 due within one year. During fiscal year 2004, \$118,831 of general obligation bonds were retired. Table 5 summarizes bonds outstanding.

**West Holmes Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**(Table 5)**  
**Outstanding Debt, at June 30**

	Governmental Activities 2004	Governmental Activities 2003
General Obligation Bonds:		
1996 School Improvements	\$ 14,495,000	\$ 14,613,831

In 1996, the residents of the West Holmes Local School District passed a bond issue providing \$16,149,935 for the purpose of constructing a new High School and classroom additions to four of the existing elementary schools. See Note 13 for additional information.

***Current Issues***

The West Holmes Local School District has always received strong support from the residents of the School District. The School District asked the voters in 1994 for additional operating revenue. This has been the only additional operating levy since 1978.

The School District receives 61.8% of its General Fund revenue from State and Federal sources and 38.2% from local sources. With the district so dependent on State revenue, the State Legislation's decision regarding what kind of school funding system will be put into affect for the future is very important to the School District.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth, which allows the School District to receive Parity Aid.

The School District has planned expenses since the last levy. This has become more difficult with the many mandates and rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

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

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

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jamie Zeigler, Treasurer of West Holmes Local School District, 28 West Jackson Street, Millersburg, Ohio 44654.

**West Holmes Local School District**

*Statement of Net Assets*

*June 30, 2004*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 9,109,353
Receivables:	
Taxes	8,052,399
Accounts	7,995
Accrued Interest	16,776
Intergovernmental	258,254
Prepaid Items	25,246
Inventory	98,061
Nondepreciable Capital Assets	618,284
Depreciable Capital Assets (Net)	<u>18,094,205</u>
 <i>Total Assets</i>	 <u>36,280,573</u>
<b>Liabilities</b>	
Accounts Payable	394,225
Accrued Wages and Benefits	2,001,049
Compensated Absences Payable	93,706
Intergovernmental Payable	696,823
Deferred Revenue	7,557,229
Claims Payable	548,887
Long Term Liabilities:	
Due Within One Year	724,241
Due Within More Than One Year	<u>15,873,150</u>
 <i>Total Liabilities</i>	 <u>27,889,310</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	4,056,952
Restricted for:	
Capital Projects	485,596
Debt Service	1,030,525
Other Purposes	69,375
Unrestricted	<u>2,748,815</u>
 <i>Total Net Assets</i>	 <u>\$ 8,391,263</u>

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

**West Holmes Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$ 9,803,021	\$ 326,990	\$ 171,604	\$ 25,400	\$ (9,279,027)
Special	2,619,613	0	854,263	0	(1,765,350)
Vocational	516,836	0	0	0	(516,836)
Other	1,184,797	0	0	0	(1,184,797)
Support services:					
Pupils	860,635	8,345	63,587	0	(788,703)
Instructional staff	680,870	144	124,244	0	(556,482)
Board of education	46,693	0	0	0	(46,693)
Administration	2,020,679	32,549	108,970	0	(1,879,160)
Fiscal	515,133	0	13,710	0	(501,423)
Operation and maintenance of plant	1,883,349	0	0	0	(1,883,349)
Pupil transportation	1,628,610	0	0	0	(1,628,610)
Central	1,371	0	0	0	(1,371)
Operation of non-instructional services	1,023,475	487,360	325,458	0	(210,657)
Extracurricular activities	502,766	176,430	0	0	(326,336)
Debt service:					
Interest and fiscal charges	1,096,635	0	0	0	(1,096,635)
<i>Total Governmental Activities</i>	<u>24,384,483</u>	<u>1,031,818</u>	<u>1,661,836</u>	<u>25,400</u>	<u>(21,665,429)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	6,375,841
Debt Service	956,542
Capital Outlay	414,503

Grants and Entitlements not Restricted to Specific Programs	11,558,713
Investment Earnings	115,146
Miscellaneous	151,936

Total General Revenues 19,572,681

Change in Net Assets (2,092,748)

Net Assets Beginning of Year, Restated (See Note 3) 10,484,011

Net Assets End of Year \$ 8,391,263

West Holmes Local School District  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2004*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 6,722,941	\$ 945,428	\$ 918,780	\$ 8,587,149
Cash and Cash Equivalents:				
Restricted Cash	70,670	0	0	70,670
Receivables:				
Taxes	6,620,297	998,642	433,460	8,052,399
Accounts	2,209	0	1,016	3,225
Interfund Loans	594,500	0	0	594,500
Accrued Interest	12,971	3,471	334	16,776
Intergovernmental	406	0	257,848	258,254
Prepaid Items	24,441	0	805	25,246
Inventory	84,472	0	13,589	98,061
<i>Total Assets</i>	<u>\$ 14,132,907</u>	<u>\$ 1,947,541</u>	<u>\$ 1,625,832</u>	<u>\$ 17,706,280</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 316,551	\$ 0	\$ 77,674	\$ 394,225
Accrued Wages and Benefits	1,793,420	0	207,629	2,001,049
Compensated Absences Payable	93,706	0	0	93,706
Interfund Payable	0	0	44,500	44,500
Intergovernmental Payable	337,872	0	29,122	366,994
Deferred Revenue	6,311,290	941,778	472,228	7,725,296
<i>Total Liabilities</i>	8,852,839	941,778	831,153	10,625,770
<b>Fund Balances</b>				
Fund Balance:				
Reserved for Encumbrances	425,153	0	347,828	772,981
Reserved for Inventory	84,472	0	13,589	98,061
Reserved for Tax Revenue Unavailable for Appropriator	309,007	56,864	20,088	385,959
Reserved for Budget Stabilization	70,670	0	0	70,670
Reserved for Debt Services:				
Principal	0	948,899	0	948,899
Reserved for Loans	594,500	0	0	594,500
Undesignated, Unreserved Reported in:				
General Fund	3,796,266	0	0	3,796,266
Special Revenue Funds	0	0	217,203	217,203
Capital Projects Funds	0	0	195,971	195,971
<i>Total Fund Balances</i>	<u>5,280,068</u>	<u>1,005,763</u>	<u>794,679</u>	<u>7,080,510</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 14,132,907</u>	<u>\$ 1,947,541</u>	<u>\$ 1,625,832</u>	<u>\$ 17,706,280</u>



West Holmes Local School District  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

Total Governmental Fund Balances		\$ 7,080,510
<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.		18,712,489
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		
Delinquent Property Taxes		168,066
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.		(642,583)
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	\$ (14,495,000)	
Compensated Absences	(1,941,854)	
Capital Lease Payable	(160,537)	
Intergovernmental Payable	(329,828)	
		(16,927,219)
<i>Net Assets of Governmental Activities</i>		<u>\$ 8,391,263</u>

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

**West Holmes Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 6,394,742	\$ 961,701	\$ 415,970	\$ 7,772,413
Intergovernmental	11,346,722	100,845	1,848,022	13,295,589
Investment income	92,348	15,053	7,745	115,146
Tuition and fees	326,990	0	0	326,990
Extracurricular activities	0	0	216,742	216,742
Charges for services	0	0	488,086	488,086
Miscellaneous	39,449	0	125,543	164,992
<i>Total Revenues</i>	18,200,251	1,077,599	3,102,108	22,379,958
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	8,729,642	0	365,367	9,095,009
Special	1,701,885	0	834,968	2,536,853
Vocational	502,635	0	0	502,635
Other	1,184,797	0	0	1,184,797
Support services:				
Pupils	773,986	0	82,203	856,189
Instructional staff	499,974	0	128,621	628,595
Board of education	48,610	0	0	48,610
Administration	1,728,413	0	172,714	1,901,127
Fiscal	437,116	30,580	28,913	496,609
Operation and maintenance of plant	1,785,433	0	0	1,785,433
Pupil transportation	1,409,336	0	0	1,409,336
Central	1,371	0	0	1,371
Operation of non-instructional services	48,014	0	890,675	938,689
Extracurricular activities	234,341	0	233,320	467,661
Capital outlay	0	0	482,821	482,821
Debt service:				
Principal retirement	45,838	118,831	0	164,669
Interest and fiscal charges	19,293	1,077,342	0	1,096,635
<i>Total Expenditures</i>	19,150,684	1,226,753	3,219,602	23,597,039
<i>Excess of Revenues Under Expenditures</i>	(950,433)	(149,154)	(117,494)	(1,217,081)
<b>Other Financing Sources (Uses):</b>				
Proceeds from sales of capital assets	2,300	0	0	2,300
Refund of prior year receipts	0	0	(3,621)	(3,621)
Refund of prior year expenditures	785	0	90	875
<i>Total Financing Sources and (Uses)</i>	3,085	0	(3,531)	(446)
<i>Net Change in Fund Balance</i>	(947,348)	(149,154)	(121,025)	(1,217,527)
<i>Fund balance at beginning of year</i>	6,227,416	1,154,917	915,704	8,298,037
<i>Fund balance at end of year</i>	<u>\$ 5,280,068</u>	<u>\$ 1,005,763</u>	<u>\$ 794,679</u>	<u>\$ 7,080,510</u>

**West Holmes Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (1,217,527)

*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	\$ 520,710	
Current Year Depreciation	<u>(952,306)</u>	(431,596)

Net effect of transactions involving sale of capital  
assets are not reflected in the funds. (16,231)

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

Delinquent Property Taxes		(25,527)
---------------------------	--	----------

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

Bond Principal	118,831	
Capital Leases	<u>45,838</u>	164,669

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

Compensated Absences	(272,097)	
Pension Obligation	<u>(157,738)</u>	(429,835)

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

(136,701)

**Change in Net Assets of Governmental Activities** \$ (2,092,748)

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

**West Holmes Local School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Taxes	\$ 6,934,461	\$ 6,395,677	\$ 6,395,677	\$ 0
Intergovernmental	10,695,518	11,265,082	11,265,082	0
Investment Income	100,000	102,036	102,036	0
Tuition and Fees	191,547	332,434	332,434	0
Miscellaneous	60,000	137,584	137,584	0
<i>Total Revenues</i>	<u>17,981,526</u>	<u>18,232,813</u>	<u>18,232,813</u>	<u>0</u>
<b>Expenditures:</b>				
<b>Current</b>				
Instruction	9,974,658	12,806,846	11,801,301	1,005,545
Support Services				
Pupils	775,407	842,633	749,465	93,168
Instructional Staff	435,017	552,276	499,403	52,873
Board of Education	181,018	181,018	54,624	126,394
Administration	1,891,045	2,102,942	1,806,353	296,589
Fiscal	446,056	480,231	433,966	46,265
Operation and Maintenance of Plant	1,537,814	2,085,202	1,904,762	180,440
Pupil Transportation	1,244,064	1,672,459	1,418,333	254,126
Central	3,555	1,955	1,446	509
Operation of Non-Instructional Services	36,862	46,052	45,760	292
Extracurricular Activities	212,986	238,151	231,567	6,584
<i>Total Expenditures</i>	<u>16,738,482</u>	<u>21,009,765</u>	<u>18,946,980</u>	<u>2,062,785</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	1,243,044	(2,776,952)	(714,167)	2,062,785
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Assets	0	2,300	2,300	0
Refund of Prior Year Expenditures	0	785	785	0
Advances Out	0	(344,500)	(344,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(341,415)</u>	<u>(341,415)</u>	<u>0</u>
<i>Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	1,243,044	(3,118,367)	(1,055,582)	2,062,785
<i>Fund Balance at Beginning of Year</i>	7,207,653	7,207,653	7,207,653	0
Prior Year Encumbrances Appropriated	641,539	641,539	641,539	0
<i>Fund Balance at End of Year</i>	<u>\$ 9,092,236</u>	<u>\$ 4,730,825</u>	<u>\$ 6,793,610</u>	<u>\$ 2,062,785</u>

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

**West Holmes Local School District**

*Statement of Net Assets*

*Proprietary Fund*

*June 30, 2004*

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	<b>Governmental Activities Internal Service Fund</b>
	<hr/>
<b>Assets</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 451,534
Accounts Receivable	4,770
	<hr/>
<i>Total Current Assets</i>	456,304
<b>Liabilities</b>	
Current Liabilities:	
Interfund Loans Payable	550,000
Claims Payable	548,887
	<hr/>
<i>Total Current Liabilities</i>	1,098,887
<b>Net Assets</b>	
Unrestricted	<hr/> (642,583)
	<hr/>
<i>Total Net Assets</i>	\$ <u><u>(642,583)</u></u>

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

**West Holmes Local School District**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2004*

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating Revenues:</b>	
Charges for services	\$ 2,915,318
 <b>Operating Expenses:</b>	
Purchased services	77,872
Claims	2,974,147
<i>Total Operating Expenses</i>	3,052,019
Operating loss	(136,701)
 <i>Net Assets (Deficit) Beginning of Year</i>	(505,882)
 <i>Net Assets (Deficit) End of Year</i>	\$ (642,583)

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

**West Holmes Local School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2004*

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash Flows From Operating Activities:</b>	
Charges for Services	\$ 3,216,327
Cash Paid for Goods and Services	(77,872)
Cash Paid for Claims	(2,903,694)
<i>Net Cash Provided By Operating Activities</i>	234,761
<i>Cash and Cash Equivalents at Beginning of Year</i>	216,773
<i>Cash and Cash Equivalents at End of Year</i>	\$ 451,534
 <b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities:</b>	
Operating Loss	\$ (136,701)
Adjustments	
Decrease in Accounts Receivable	1,009
Increase in Due to Other Funds	300,000
Increase in Claims Payable	70,453
<i>Total Adjustments</i>	371,462
<i>Net Cash Provided By Operating Activities</i>	\$ 234,761

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

**West Holmes Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2004*

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	<u>Student Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 93,232
<b>Liabilities</b>	
Undistributed Monies	\$ 88,011
Accounts Payable	<u>5,221</u>
<i>Total Liabilities</i>	<u>\$ 93,232</u>

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



**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 1 – Description of the School District**

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

The School District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2003, was 2,828. The School District employs 201 certificated and 135 non-certificated employees.

*Reporting Entity*

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

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

The District is involved with Tri-County Computer Service Association (TCCSA) and Ashland County-West Holmes Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 15. The District is also involved with the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. See Note 15 for additional information on this pool.

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

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary fund, unless those pronouncements conflict

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

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

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

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

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

***B. Fund Accounting***

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

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

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

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

**Proprietary Fund Type** Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the School District's proprietary fund type:

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

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

**C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets.

**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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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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 proprietary fund activities.

***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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 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.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

***E. Cash and Cash Equivalents***

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

During fiscal year 2004, investments were limited to, certificates of deposit and money-market accounts.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the general fund to receive allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$92,348.

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

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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 services are consumed.

***G. Inventory***

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

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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***H. Restricted Assets***

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

***I. Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Land	N/A
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	10 Years
Infrastructure	10 - 50 Years

***J. Interfund Balances***

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

***K. Compensated Absences***

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for 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 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.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources upon notice of resignation or retirement. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***L. Accrued Liabilities and Long-term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

***M. Net Assets***

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

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

***N. Fund Balance Reserves***

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

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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***O. Operating Revenues and Expenses***

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

***P. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

***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.

***R. Budgetary Data***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the fund/object level for the general fund and at the fund level for all other funds. Budgetary modifications at this level may only be made by resolution of the Board of Education.

***Tax Budget*** Prior to January 15, the Superintendent and Treasurer submit to the Board 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.

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any



**West Holmes Local School District**  
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unencumbered balances from the preceding year. The Certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the Amended 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 2004.

***Appropriations*** A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An Annual Appropriation Resolution must be passed by October 1 of each year for the period July 1 to June 30. The Appropriation Resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at the legal level of control. Any revisions that alter the total fund/object appropriation in the general fund or alter total fund appropriations in any other fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

***Encumbrances*** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

***Lapsing of Appropriations*** At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

**Note 3 – Restatement of Capital Assets / Net Assets**

For fiscal year 2004, the District changed its capital assets policy. The capitalization threshold increased from \$500 to \$3,000. In addition, the District will not capitalize textbooks. Capital asset balances have been adjusted as of July 1, 2003 for the changes in the capital assets policy.

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	Balance 6/30/2003	Adjustments	Balance 7/1/2003
<b>Governmental Activities</b>			
<i>Capital Assets, not being depreciated:</i>			
Land	\$ 629,414	\$ (11,130)	\$ 618,284
<i>Capital Assets, being depreciated:</i>			
Buildings and Improvements	23,743,743	(71,540)	23,672,203
Furniture and Equipment	5,671,336	(2,782,850)	2,888,486
Vehicles	1,781,909	(2,936)	1,778,973
Textbooks	1,251,173	(1,251,173)	0
Infrastructure	31,884	0	31,884
Total Capital Assets, being depreciated	32,480,045	(4,108,499)	28,371,546
Less Accumulated Depreciation:			
Buildings and Improvements	(7,275,486)	(401,381)	(7,676,867)
Furniture and Equipment	(2,932,921)	1,569,859	(1,363,062)
Vehicles	(762,220)	441	(761,779)
Textbooks	(735,488)	735,488	0
Infrastructure	(25,476)	(2,330)	(27,806)
Total Accumulated Depreciation	(11,731,591)	1,902,077	(9,829,514)
Total Capital Assets being depreciated, net	20,748,454	(2,206,422)	18,542,032
Governmental Activities Capital Assets, Net	\$ 21,377,868	\$ (2,217,552)	\$ 19,160,316

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

Governmental Activities Net Assets, June 30, 2003	\$ 12,701,563
Less: Capital Assets, June 30, 2003	(21,377,868)
Add: Capital Assets, July 1, 2003	19,160,316
Governmental Activities Net Assets, July 1, 2003	\$ 10,484,011

**West Holmes Local School District**  
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**Note 4 – Accountability and Compliance**

**A. Deficit Fund Balance**

Net assets/fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
Non-Major Funds:	
Food Service	\$ 152,475
Title VI-B	37,830
Title I	48,169
Title VI	380
Building Fund	1

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

The self insurance internal service fund also had deficit net assets of \$642,583. The District is currently addressing the deficit net assets to determine what to do to generate a positive balance.

**B. Compliance**

1. Contrary to Ohio Revised Code Section 135.18 the District had funds on deposit with a financial institution which were not collateralized.
2. Contrary to Ohio Revised Code Section 5705.39 the District had funds with appropriations exceeding estimated resources, ranging from \$26,296 to \$4,264,590.

**Note 5 - Budgetary Basis of Accounting**

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

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

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

	General
GAAP Basis	\$ (947,348)
Net Adjustment for Revenue Accruals	32,559
Net Adjustment for Expenditure Accruals	600,911
Adjustment for Encumbrances	(741,704)
Budget Basis	\$ (1,055,582)

**Note 6 - Deposits and Investments**

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

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

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

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

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

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

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing

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Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

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

***Cash on Hand*** At year end, the School District had \$1,500 in undeposited cash on hand which is included on the financial statements of the School District as part of equity in pooled cash and cash equivalents.

***Deposits*** At fiscal year-end, the carrying amount of the School District's deposits was \$9,201,085 and the bank balance was \$9,407,333. Of the bank balance:

1. \$266,724 was covered by depository insurance;
2. \$7,237,339 was covered by collateral held in the pledging bank's trust department in the School District's name; and
3. \$1,903,270 was uncollateralized.

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*Notes to the Basic Financial Statements*  
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**Note 7 - Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Holmes, Wayne, Coshocton, and Ashland County Auditors are responsible for assessing and remitting these property taxes to the District.

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Holmes, Wayne, Coshocton, and Ashland County Auditors reappraise real property every six years with a triennial update, which was last completed for the tax year, 2001 for Holmes County, 2003 for Coshocton and 2002 for Ashland and Wayne Counties. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Holmes, Wayne, Coshocton, and Ashland Counties, real property taxes are billed semi-annually, one year in arrears. The tax rate applied to real property collected in 2003 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$33.60 per \$1,000 of valuation for Holmes, Wayne, Coshocton and Ashland Counties. The effective rate applied after adjustment for inflationary increases in property values was \$29.58 per \$1,000 of assessed valuation for residential and agricultural real property, and \$30.04 per \$1,000 of assessed valuation for other real property for Holmes, Wayne, Coshocton, and Ashland Counties.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2003 was \$33.60 per \$1,000 of valuation for Holmes, Wayne, Coshocton, and Ashland Counties.

The property valuation consisted of:

	<u>Holmes</u>	<u>Wayne</u>	<u>Coshocton</u>	<u>Ashland</u>
Real Property:				
Residential/Agricultural	\$189,650,670	\$4,256,780	\$5,816,340	\$1,460,720
Commercial/Industrial	33,446,420	301,650	32,150	55,480
Public Utilities	22,590	8,490	0	0
Mineral	2,703,720	0	144,970	0
Tangible Personal Property:				
General	21,653,450	296,764	15,840	14,690
Public Utilities	<u>17,001,220</u>	<u>1,853,850</u>	<u>307,340</u>	<u>236,420</u>
Total Valuation	<u>\$264,478,070</u>	<u>\$6,717,534</u>	<u>\$6,316,640</u>	<u>\$1,767,310</u>

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The late settlement and the amount available as an advance at June 30 are recognized as revenue.

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The amount available as an advance at June 30, 2004, was \$385,959 and is recognized as revenue. \$309,007 was available to the general fund, \$56,864 was available to the bond retirement debt service fund and \$20,088 was available to the permanent improvement fund reported with Other Governmental Funds.

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

**Note 8 - Receivables**

Receivables at June 30, 2004, consisted of taxes, accounts (fees), interfund, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

Intergovernmental receivables consisted of intergovernmental revenues and operating grants in the following Governmental funds:

General	\$ 406
Title IV-A	2,222
Title VI-B	56,128
Title I	127,630
Tital V	13,370
Title II-A	13,112
Title II-D	9,693
Food Service	35,693
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	\$ 258,254
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**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
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**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 7/1/2003	Additions	Reductions	Balance 6/30/2004
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 618,284	\$ 0	\$ 0	\$ 618,284
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	23,672,203	245,437	0	23,917,640
Furniture and Equipment	2,888,486	127,009	0	3,015,495
Vehicles	1,778,973	148,264	(105,300)	1,821,937
Infrastructure	31,884	0	0	31,884
Total Capital Assets, being depreciated	28,371,546	520,710	(105,300)	28,786,956
Less Accumulated Depreciation:				
Buildings and Improvements	(7,676,867)	(633,444)	0	(8,310,311)
Furniture and Equipment	(1,363,062)	(171,022)	0	(1,534,084)
Vehicles	(761,779)	(146,874)	89,069	(819,584)
Infrastructure	(27,806)	(966)	0	(28,772)
Total Accumulated Depreciation	(9,829,514)	(952,306)	89,069	(10,692,751)
Total Capital Assets being depreciated, net	18,542,032	(431,596)	(16,231)	18,094,205
Governmental Activities Capital Assets, Net	\$ 19,160,316	\$ (431,596)	\$ (16,231)	\$ 18,712,489

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 662,234
Vocational	779
Support Services:	
Pupil	1,070
Instructional Staff	20,930
Administration	27,951
Fiscal	3,660
Operation and Maintenance of Plant	11,180
Pupil Transportaion	172,085
Operation of Non-Instructional Services	17,738
Extracurricular Activities	34,679
Total Depreciation	\$ 952,306



**West Holmes Local School District**  
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**Note 10 - Risk Management**

***A. Property and Liability***

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

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

***B. Workers' Compensation***

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the program is limited to members that can meet the program's selection criteria. The districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the School District pays an enrollment fee to the program to cover the costs of administration.

***C. Employee Medical Benefits***

The School District has established a limited risk management program for its medical insurance program. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$50,000, and aggregate claims in excess of \$1,756,880. The liability for unpaid claims cost of \$548,887 is reported in the fund at June 30, 2004 in accordance with Government Accounting Standards Board Statement No. 10.

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Changes in the fund's claims liability amount in 2003 and 2004 were:

	<u>Balance at Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2003	\$ 334,432	\$2,397,170	\$2,253,168	\$ 478,434
2004	\$ 478,434	\$2,974,147	\$2,903,694	\$ 548,887

**Note 11- Defined Benefit Pension Plans**

***A. School Employees Retirement System***

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS's Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$463,872, \$374,424, and \$362,832, respectively; 50% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$231,936 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability.

***B. State Teachers Retirement System***

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System 275 East Broad Street, Columbus, and Ohio 43215-3771, or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS funds times an actuarially

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determined annuity factor. The DC plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salaries and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. Contribution rates are established by and may be amended by the STRS Board of Trustees. The School District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,345,416, \$1,190,736, and \$1,218,072, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$224,236 represents the unpaid contribution for fiscal year 2004, and is recorded as a liability.

***C. Social Security System***

Effective July 1, 1991, board members not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**Note 12 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the

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employer contribution rate; currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$96,101 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance of the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 and eligible benefit recipients totaled \$111,853 and net health care costs paid by STRS were \$268,739,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004 all retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2004, the healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, during the 2004 fiscal year equaled \$162,686.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

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**Note 13 - Long - Term Obligations**

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

	Outstanding 6/30/03	Additions	Reductions	Outstanding 6/30/04	Amounts Due in One Year
<b>Governmental Activities:</b>					
School Improvement Bonds, 3.7% - 5.35% variable rate interest, matures December 2023	\$ 14,613,831	\$ 0	\$ 118,831	\$ 14,495,000	\$ 440,000
Capital lease payable	206,375	0	45,838	160,537	49,341
Compensated absences	<u>1,669,757</u>	<u>371,865</u>	<u>99,768</u>	<u>1,941,854</u>	<u>234,900</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 16,489,963</u>	<u>\$ 371,865</u>	<u>\$ 264,437</u>	<u>\$ 16,597,391</u>	<u>\$ 724,241</u>

In 1997, the School District issued \$16,149,935 in general obligation bonds for construction of a new High School. The bonds mature in December 2023.

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

In prior years, the District entered into capitalized leases for copiers. The total capitalized cost of the copiers is \$254,104. All of the leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments in the General Fund. Capital assets acquired by the leases have been capitalized in the Governmental Activities in the amount equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was also recorded.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

<u>General Obligation Bonds</u>			
<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 440,000	\$ 746,273	\$ 1,186,273
2006	460,000	725,793	1,185,793
2007	480,000	704,053	1,184,053
2008	500,000	681,018	1,181,018
2009	525,000	656,411	1,181,411
2010 - 2014	3,035,000	2,848,922	5,883,922
2015 - 2019	3,935,000	1,927,072	5,862,072
2020 - 2024	<u>5,120,000</u>	<u>716,756</u>	<u>5,836,756</u>
Total	<u>\$ 14,495,000</u>	<u>\$ 9,006,298</u>	<u>\$ 23,501,298</u>

The following summarizes future minimum lease payments under the above capital leases, and the present values of net minimum lease payments at June 30, 2004:

2005	\$ 63,746
2006	58,319
2007	56,983
2008	<u>11,783</u>
Total Minimum Lease Payments	190,831
Less: Amounts Representing Interest	<u>(30,294)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 160,537</u>

**Note 14 – Deferred Revenue**

Deferred revenue at June 30, 2004 consisted of the following:

	<u>Statement of</u> <u>Net Assets</u>	<u>Balance</u> <u>Sheet</u>
Property Taxes Receivable	\$ 7,498,373	\$ 7,666,440
Intergovernmental Receivable	<u>58,856</u>	<u>58,856</u>
	<u>\$ 7,557,229</u>	<u>\$ 7,725,296</u>

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 15 - Jointly Governed Organizations / Insurance Purchasing Pool**

A. Tri-County Computer Service Association (TCCSA)

TCCSA is a jointly governed organization comprised of 23 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Education Service Center, located in Wooster, Ohio which serves as fiscal agent.

B. Ashland County-West Holmes Career Center (Career Center)

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its 11 member school districts. The Career Center is governed by a board of education comprised of 11 members appointed by the participating schools. The Board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and no measurable equity interest exists.

C. Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan's business affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school district is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan.

**Note 16 – Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any

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**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

***B. Litigation***

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

**Note 17 - Set-Asides**

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

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

	Budget Stabilization Reserve	Capital Improvement Reserve	Textbook Instructional Materials Reserve	Total
Set-Aside Cash Balance as of June 30, 2003	\$ 70,670	\$0	\$ 0	\$ 70,670
Set-Aside Carryover Balance as of June 30, 2003	0	0	(300,455)	(300,455)
Current Year Set-Aside Requirement	0	404,772	404,772	809,544
Qualifying Disbursements	0	0	(478,972)	(939,192)
Current Year Offsets	0	(460,220)	0	0
<b>Total</b>	<b>\$ 70,670</b>	<b>\$ (55,448)</b>	<b>\$ (374,655)</b>	<b>\$ (359,433)</b>
Cash Balance Carried Forward FY 2004	\$ 70,670	\$ 0	\$ 0	\$ 70,670
Amount to Restrict for Set-Asides/Restricted Cash				\$ 70,670

Effective April 10, 2001, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from this law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used.



**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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

The School District had qualifying disbursements during the year that reduced the textbook reserve set-aside below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years. The total reserve balance/restricted cash for the set-asides at the end of the fiscal year was \$70,670.

**Note 18 – State School Funding Decision**

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

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

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

**Note 19 – Interfund Receivable and Payable**

At June 30, 2004, the District had the following interfund balances:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 594,500	\$ 0
Self-Insurance Internal Service Fund	0	550,000
Title VI-B	0	14,500
Title 1	0	3,700
Title V	0	14,000
Title IV-A	0	2,300
Title 11-D	<u>0</u>	<u>10,000</u>
	<u>\$ 594,500</u>	<u>\$ 594,500</u>

The interfund balances resulted from the increasing costs of health insurance and there not being enough receipts to cover the expenses being generated in the internal service fund.

As of June 30, 2004, the interfund balances were still outstanding. At year end, the School District is unable to determine when the balance will be repaid due to the fund deficit in the Self-Insurance Internal Service Fund. The federal grant funds will be repaid once reimbursement of those expenditures are received by the District.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 20 – Holmes Digital Academy**

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

**WEST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. Department of Education</u></b>						
<i>(Passed through the Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-2003 C1-S1-2004	\$55,131 642,059		\$58,553 609,708	
Total Title I Grants to Local Educational Agencies			697,190		668,261	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-2003-P 6B-SF-2004-P	41,956 324,389		54,772 342,431	
Total Special Education Cluster			366,345		397,203	
Safe and Drug-Free Schools and Communities State Grants	84.186	DR-S1-2004	14,499		14,967	
Innovative Education Program Strategies	84.298	C2-S1-2003 C2-S1-2004	2,842 11,938		2,842 25,569	
Total Innovative Education Program Strategies			14,780		28,411	
Technology Literacy Challenge Fund Grants	84.318	TJ-S1-2003 TJ-S1-2004	1,540 11,141		1,540 11,583	
Total Technology Literacy Challenge Fund Grants			12,681		13,123	
Improving Teacher Quality State Grants	84.367	TR-S1-2003 TR-S1-2004	26,183 142,088		20,511 119,794	
Total Improving Teacher Quality State Grants			168,271		140,305	
<b>Total U.S. Department of Education</b>			<b>1,273,766</b>		<b>1,262,270</b>	
<b><u>U.S. Department of Health and Human Services</u></b>						
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	81,640		81,640	
<b><u>U.S. Department of Agriculture</u></b>						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Donation Program	10.550	N/A		\$80,827		\$85,239
National School Lunch Program	10.555	N/A	277,758		277,758	
<b>Total U.S. Department of Agriculture (Child Nutrition Cluster)</b>			<b>277,758</b>	<b>80,827</b>	<b>277,758</b>	<b>85,239</b>
<b>Totals</b>			<b>\$1,633,164</b>	<b>\$80,827</b>	<b>\$1,621,668</b>	<b>\$85,239</b>

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

**WEST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the West Holmes Local School District, Holmes County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 14, 2005, which indicated the District increased the capitalization threshold from \$500 to \$3,000 and eliminated the capitalization of textbooks. 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.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002.

We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 14, 2005.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2004-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is not considered to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 14, 2005.

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



**Betty Montgomery**  
Auditor of State

March 14, 2005



## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of West Holmes Local School District, Holmes County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

#### Internal Control Over Compliance

The management of the 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 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.

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

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

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

**Betty Montgomery**  
Auditor of State

March 14, 2005



**WEST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

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

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

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

**FINDING NUMBER 2004-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 135.18** states, in part, that the treasurer of a public subdivision shall require the depository institution designated as a public depository holding public funds to provide as security an amount equal to the funds on deposit with the institution at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

The District had funds on deposit with a financial institution, on June 30, 2004 in the amount of \$1,903,270 which were not collateralized. To ensure public deposits are secured by either federal deposit insurance, surety company bonds, or pledged securities, the Treasurer should require the financial institution provide security for the amount of those public funds deposited.

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.39** requires that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

During budgetary testing, it was noted that appropriations exceeded estimated resources on July 31, 2003 in the following fund:

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<b>Internal Service</b>			
Self Insurance Fund (Fund 024)	\$3,056,774	\$7,321,364	(\$4,264,590)

During budgetary testing, it was noted that appropriations exceeded estimated resources on June 30, 2004 in the following funds:

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<b>Special Revenue</b>			
Title VI-B (Fund 516)	\$391,375	\$439,481	(\$48,106)
Title I (Fund 572)	708,139	877,994	(169,855)
Title VI-R/II-A (Fund 590)	172,930	199,326	(26,396)

Additionally, throughout fiscal year 2004, we noted 19 immaterial instances where appropriations exceeded estimated resources at the fund level ranging from \$130 to \$6,912.

Appropriations for each fund should not exceed estimated resources. Failure to follow approved budgets could lead to overspending and the possibility of negative fund balances. To ensure appropriations do not exceed estimated resources, the District should monitor its financial activity and amend its approved budgets accordingly.

We also reported a similar matter in the management letter in our June 30, 2003, audit of the financial statements.

### FINDING NUMBER 2004-003

#### Reportable Condition

##### GAAP Conversion Plan

The District hired an independent public accountant (IPA) firm to prepare the District's annual basic financial statements and GASB 34 conversion. We noted the District and the IPA do not have a Generally Accepted Accounting Principles (GAAP) conversion plan to ensure the basic financial statements are completed in a consistent fashion and in accordance with GAAP.

Within the District's compiled financial statements, various accounting and disclosure issues from prior audits continued to exist in the current audit. These issues required unnecessary time and effort on the part of the auditors. For example:

- The IPA used the tax budget and the debt amortization schedule to prepare taxes receivable rather than the settlement sheets or the certificate of estimated resources. The IPA utilized the same incorrect information in the prior year.
- Accounts payable were determined by purchase order date only. Using purchase order dates only leads to the inclusion of expenditures that should not be classified as payables at fiscal year end.
- Governmental Accounting Standards Board (GASB) Statement No. 34 paragraph 44 and GASB Comprehensive Implementation Guide questions 7.163 and 7.164 state that depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building that houses administrative, athletic, food service, various instructional departments, etc.) should be ratably included in the direct expenses of the appropriate functions. For school districts, this is normally determined based on square footage of buildings or number of personnel.

The following is recommended:

- The IPA firm should use either the first Certificate of Estimated Resources or Tax Settlement Sheet of the subsequent fiscal year in determining the appropriate taxes receivable amount.
- Accounts payable should be determined by the use of purchase order and invoice and/or service date(s) to ensure the accuracy in classifying accounts payable versus encumbrances.
- The District did not allocate depreciation expenses using the above listed methods. Rather the building depreciation was allocated according to the functions where the capital assets were charged. For example, the High School building was entirely charged to the function 1130, the Junior High was entirely charged to function 1120, and the Elementary buildings were completely charged to function 1110. The District should allocate depreciation expense to appropriate functions based on actual usage and a reasonable method such as square footage or number of personnel.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None.





**Auditor of State  
Betty Montgomery**

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**WEST HOLMES LOCAL SCHOOL DISTRICT  
HOLMES COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 5, 2005**