

EAST HOLMES LOCAL SCHOOL DISTRICT

Holmes County, Ohio

Basic Financial Statements
(Audited)

For the Fiscal Year Ended June 30, 2011

Marsha Clark, CPA
Treasurer



Dave Yost • Auditor of State

Board of Education
East Holmes Local School District
P.O. Box 182
Berlin, Ohio 44610

We have reviewed the *Independent Auditor's Report* of the East Holmes Local School District, Holmes County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 13, 2012

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East Holmes Local School District
General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2011

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December 30, 2011

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of East Holmes Local School District (the District), as of and for the year ended June 30, 2011, 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, its major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rea & Associates, Inc.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of East Holmes Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key Financial Highlights for 2011 are as follows:

- In total, net assets decreased by \$26,359.
- Revenues for governmental activities totaled \$19,698,783 in 2011. Of this total, 78 percent consisted of General revenues while Program revenues accounted for the balance of 22 percent.
- Program expenses totaled \$19,725,142. Instructional expenses made up 56.1 percent of this total while support services accounted for 36.2 percent. Other expenses rounded out the remaining 7.7 percent.
- Outstanding general obligation bonded debt decreased from \$1,960,000 to \$1,780,000 in 2011.

Using this Annual Financial Report

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the District to provide programs and activities, the view of the District as a whole considers all financial transactions and asks the question, "How did we do financially during 2011?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the 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 District's performance, demographic and socioeconomic factors and willingness of the community to support the District. On the other hand, financial factors may include the District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the District's net assets for 2011 compared to 2010:

Table I
Net Assets

	Governmental Activities	
	2011	2010
Assets		
Current and Other Assets	\$16,480,567	\$15,765,292
Capital Assets, Net	10,680,897	11,220,475
Total Assets	27,161,464	26,985,767
Liabilities		
Current and Other Liabilities	10,116,379	9,804,036
Long-Term Liabilities:		
Due Within One Year	286,745	267,148
Due in More than One Year	2,935,553	3,065,437
Total Liabilities	13,338,677	13,136,621
Net Assets		
Invested in Capital Assets, Net of Debt	8,909,175	9,260,475
Restricted:		
Debt Service	218,381	172,689
Capital Outlay	1,023,566	741,589
Other Purpose	1,068,028	750,600
Unrestricted	2,603,637	2,923,793
Total Net Assets	\$13,822,787	\$13,849,146

Total assets increased by \$175,697. This increase is primarily due to an increase in Intergovernmental Receivable.

Total liabilities increased by \$202,056. The most notable area of increase was Deferred Revenue and Matured Compensated Absences.

By comparing assets and liabilities, one can see the overall position of net assets has decreased by \$26,359. The majority of this decrease is due to the increase in Deferred Revenues at June 30, 2011.

Table 2 shows the changes in net assets for fiscal year 2011 as compared to fiscal year 2010.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities	
	2011	2010
Revenues		
Program Revenues:		
Charges for Services	\$1,548,506	\$1,368,233
Operating Grants, Contributions and Interest	2,754,940	3,053,614
<i>Total Program Revenues</i>	<u>4,303,446</u>	<u>4,421,847</u>
General Revenues:		
Property Taxes	8,245,266	7,910,522
Grants and Entitlements, not restricted	7,004,684	6,678,898
Investments	71,069	105,866
Miscellaneous	74,318	67,075
<i>Total General Revenues</i>	<u>15,395,337</u>	<u>14,762,361</u>
Total Revenues	<u>19,698,783</u>	<u>19,184,208</u>
Program Expenses		
Instruction		
Regular	8,329,423	8,100,826
Special	2,298,310	2,261,250
Vocational	436,706	452,385
Student Intervention	0	9,026
Support Services:		
Pupil	885,858	806,979
Instructional Staff	1,003,799	962,527
Board of Education	27,526	26,885
Administration	1,744,704	1,640,241
Fiscal	474,112	435,039
Operation and Maintenance	1,559,570	1,484,088
Pupil Transportation	1,333,257	1,286,077
Central	118,767	115,771
Operating of Non-Instructional Services	857,501	787,017
Extracurricular Activities	558,115	523,695
Interest and Fiscal Charges	97,494	108,508
Total Program Expenses	<u>19,725,142</u>	<u>19,000,314</u>
Increase (Decrease) in Net Assets	(26,359)	183,894
Net Assets at Beginning of Year	<u>13,849,146</u>	<u>13,665,252</u>
Net Assets at End of Year	<u>\$ 13,822,787</u>	<u>\$ 13,849,146</u>

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$15,395,337 or 78 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$4,304,446 or only 22 percent of total revenue.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Governmental Activities

The District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The District has several continuing levies for a total of 18 mills, which currently generate an estimated \$6,895,000 in revenues. The School District also collects \$550,000 from a five year emergency levy that was last renewed in 2011, and will be put before the voters for renewal in 2019.

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

As one can see, approximately 56.1 percent of the District's expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 36.2 percent. The remaining amount of program expenses, roughly 7.7 percent, is to facilitate other obligations of the District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

Actual expenses were consistent with expectations but the District experienced a decrease in net assets in 2011 of \$26,359. This decrease was primarily due to expenses exceeding revenues, which was caused by a decrease in Deferred Revenue.

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

Table 3
 Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Instruction				
Regular	\$ 8,329,423	\$7,294,053	\$ 8,100,826	\$7,162,011
Special	2,298,310	965,534	2,261,250	631,075
Vocational	436,706	362,030	452,385	438,521
Student Intervention	0	0	9,026	9,026
Support Services:				
Pupil	885,858	525,250	806,979	458,190
Instructional Staff	1,003,799	651,168	962,527	550,537
Board of Education	27,526	27,526	26,885	26,885
Administration	1,744,704	1,660,360	1,640,241	1,556,092
Fiscal	474,112	474,112	435,039	435,039
Operation and Maintenance	1,559,570	1,551,279	1,484,088	1,477,092
Pupil Transportation	1,333,257	1,305,235	1,286,077	1,262,543
Central	118,767	103,924	115,771	101,076
Food Service Operations	857,501	70,444	787,017	38,204
Extracurricular Activities	558,115	333,287	523,695	323,668
Interest and Fiscal Charges	97,494	97,494	108,508	108,508
Total	\$ 19,725,142	\$ 15,421,696	\$ 19,000,314	\$ 14,578,467

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Nearly 41.8 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 35.5 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 21.8 percent of all governmental expenses.

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

District's Funds

Information regarding the District's major fund can be found on page 16. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$19,272,414 and expenditures of \$18,866,345. The General Fund balance decreased \$115,825, due to decreases in operating revenues.

General Fund Budgeting Highlights

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

During the course of fiscal 2011, the District amended its general fund budget numerous times, none significant. The District uses a site-based style of budgeting and has in place systems that are designed to tightly control disbursements but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$14,653,000; this was greater than original revenue estimates of \$14,430,000. The main differences between the original and final estimates were due to an under estimation of taxes. The final budget basis expenditures estimate totaled \$15,575,380; this was less than the original budget estimates of \$15,846,650. This majority of this difference can be attributed to decreases in the estimates of expenditures for instructional services. These decreases were due to lower salary and benefit costs. The decreased payroll costs can be attributed to fewer teachers due to attrition.

The District's unencumbered ending cash balance totaled \$4,923,789, which was above the original and final budgeted amounts, due mainly to lower actual expenditures than budgeted.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the District had \$10,680,897 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, vehicles, net of accumulated depreciation. Table 4 shows fiscal 2011 values compared to 2010.

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

	Governmental Activities	
	2011	2010
Land	\$1,067,816	\$1,067,816
Land Improvements	1,645,305	1,620,594
Buildings and Improvements	15,782,825	15,737,253
Furniture and Equipment	1,780,857	1,762,542
Vehicles	1,595,958	1,605,462
Accumulated Depreciation	<u>(11,191,864)</u>	<u>(10,573,192)</u>
Totals	<u>\$10,680,897</u>	<u>\$11,220,475</u>

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

Debt

At June 30, 2011 the District had \$1,780,000 in bonds outstanding. Table 5 below summarizes the District's bonds outstanding.

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2011	2010
2001 Hiland Renovation Bonds	\$0	\$145,000
2007 Refunding Bonds	<u>1,780,000</u>	<u>1,815,000</u>
Totals	<u>\$1,780,000</u>	<u>\$1,960,000</u>

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

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

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The District's overall legal debt margin was \$35,372,440 with an unvoted debt margin of \$393,027. For more information on debt refer to Note 7 of the basic financial statements.

District Outlook

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

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

Although the District relies heavily on its real property taxpayers to support its operations, the community support for the schools is quite strong. As mentioned earlier, the East Holmes voters had renewed a \$550,000 emergency levy in May 2011, which will help fund the general operations of the District through the first half of fiscal year 2020. The District is expecting to have a positive general fund cash balance through the end of the 2013 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2013 fiscal year. The District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the District to come back to the voters from time to time to ask for additional support. Currently, the District did not receive enough votes for the passage of an emergency levy for 5.33 mills (\$2,000,000 per year) in the November 2, 2010 general election. On May 3, 2011 and November 8, 2011 voters rejected an emergency levy request for 3.82 mills (\$1,500,000). On March 6, 2012, the voters will again be asked to approve an emergency levy to provide \$1,500,000 (3.77 mills) in additional operating revenue for the District.

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

With 41.9 percent of the revenue for the District coming from property taxes, one can see the significant impact this constraint could have on the District and ultimately, the residential taxpayers.

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

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Contacting the District's Financial Management

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

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East Holmes Local School District
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 7,065,945
Cash and Cash Equivalents in Segregated Accounts	175,310
Inventory Held for Resale	51,464
Materials and Supplies Inventory	65,339
Accrued Interest Receivable	1,004
Accounts Receivable	2,417
Intergovernmental Receivable	1,048,471
Prepaid Items	10,245
Taxes Receivable	8,016,133
Deferred Charges	44,239
Non-Depreciable Capital Assets	1,067,816
Depreciable Capital Assets, net	9,613,081
<i>Total Assets</i>	27,161,464
LIABILITIES:	
Accounts Payable	113,879
Accrued Wages and Benefits	1,723,192
Contracts Payable	3,600
Intergovernmental Payable	334,401
Accrued Interest Payable	5,717
Accrued Vacation Leave Payable	48,900
Matured Compensated Absences Payable	202,615
Deferred Revenue	7,460,382
Claims Payable	223,693
Due Within One Year	286,745
Due in More Than One Year	2,935,553
<i>Total Liabilities</i>	13,338,677
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	8,909,175
Restricted for Debt Service	218,381
Restricted for Capital Outlay	1,023,566
Restricted for Other Purposes	1,068,028
Unrestricted	2,603,637
<i>Total Net Assets</i>	\$ 13,822,787

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$ 8,329,423	\$ 620,924	\$ 414,446
Special	2,298,310	67,692	1,265,084
Vocational	436,706	50,890	23,786
Support Services:			
Pupils	885,858	197,024	163,584
Instructional Staff	1,003,799	598	352,033
Board of Education	27,526	0	0
Administration	1,744,704	0	84,344
Fiscal	474,112	0	0
Operation and Maintenance of Plant	1,559,570	8,291	0
Pupil Transportation	1,333,257	0	28,022
Central	118,767	9,540	5,303
Operation of Non-Instructional Services:			
Food Service Operations	857,501	376,540	410,517
Extracurricular Activities	558,115	217,007	7,821
Interest and Fiscal Charges	97,494	0	0
<i>Total Governmental Activities</i>	<u>\$ 19,725,142</u>	<u>\$ 1,548,506</u>	<u>\$ 2,754,940</u>

General Revenues:

Property Taxes Levied:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

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

\$		(7,294,053)
		(965,534)
		(362,030)
		(525,250)
		(651,168)
		(27,526)
		(1,660,360)
		(474,112)
		(1,551,279)
		(1,305,235)
		(103,924)
		(70,444)
		(333,287)
		(97,494)
		<hr style="border-top: 1px solid black;"/>
		(15,421,696)
		<hr style="border-top: 1px solid black;"/>

		7,666,581
		249,551
		329,134
		7,004,684
		71,069
		74,318
		<hr style="border-top: 1px solid black;"/>
		15,395,337
		(26,359)
		13,849,146
		<hr style="border-top: 1px solid black;"/>
		\$ 13,822,787
		<hr style="border-top: 1px solid black;"/>

East Holmes Local School District
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Other Governmental Funds
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 5,254,060	\$ 1,811,885
Inventory Held for Resale	0	51,464
Materials and Supplies Inventory	64,740	599
Accrued Interest Receivable	1,004	0
Accounts Receivable	540	1,877
Intergovernmental Receivable	8,408	1,040,063
Prepaid Items	10,245	0
Taxes Receivable	7,458,510	557,623
<i>Total Assets</i>	\$ 12,797,507	\$ 3,463,511
LIABILITIES:		
Accounts Payable	\$ 83,339	\$ 30,540
Accrued Wages and Benefits	1,376,881	346,311
Contracts Payable	3,600	0
Intergovernmental Payable	264,814	69,587
Matured Compensated Absences Payable	177,595	25,020
Deferred Revenue	7,040,677	1,420,936
<i>Total Liabilities</i>	8,946,906	1,892,394
FUND BALANCES:		
Nonspendable	74,985	52,063
Restricted	60,975	1,540,610
Assigned	251,236	0
Unassigned	3,463,405	(21,556)
<i>Total Fund Balances</i>	3,850,601	1,571,117
<i>Total Liabilities and Fund Balances</i>	\$ 12,797,507	\$ 3,463,511

See accompanying notes to the basic financial statements

East Holmes Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2011

<hr/> Total Governmental Funds <hr/>	Total Governmental Fund Balances	\$ 5,421,718
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
\$ 7,065,945	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,680,897
51,464		
65,339	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to:	
1,004	Property Taxes	\$ 106,666
2,417	Intergovernmental Grants	<u>894,563</u>
1,048,471	Total	1,001,229
10,245		
<u>8,016,133</u>		
<u>\$ 16,261,018</u>	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	44,239
\$ 113,879	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,717)
1,723,192	Accretion on Capital Appreciation Bonds	(104,485)
3,600		
334,401	Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	
202,615	Vacation Benefits Payable	(48,900)
<u>8,461,613</u>		
10,839,300	Long-term liabilities, including bonds payable, long term notes compensating absences, and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
	Bond Premium	(169,030)
127,048	Refunding Loss	124,789
1,601,585	Compensated Absences Payable	(1,293,570)
251,236	General Obligation Bonds & Notes Payable	<u>(1,780,000)</u>
<u>3,441,849</u>	Total	(3,117,811)
5,421,718		
<u>\$ 16,261,018</u>	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>(48,383)</u>
	Net Assets of Governmental Activities	<u><u>\$13,822,787</u></u>

East Holmes Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>
REVENUES:		
Property and Other Local Taxes	\$ 7,670,930	\$ 578,664
Intergovernmental	6,105,132	3,252,298
Interest	71,069	550
Tuition and Fees	689,214	0
Rent	8,291	0
Extracurricular Activities	214,327	174,569
Gifts and Donations	14,246	7,591
Customer Sales and Services	0	376,540
Miscellaneous	72,295	36,698
<i>Total Revenues</i>	<u>14,845,504</u>	<u>4,426,910</u>
EXPENDITURES:		
Current:		
Instruction:		
Regular	7,447,633	429,097
Special	813,811	1,426,899
Vocational	358,677	47,733
Support Services:		
Pupils	716,169	153,604
Instructional Staff	535,006	391,021
Board of Education	27,526	0
Administration	1,604,596	84,819
Fiscal	227,688	234,229
Operation and Maintenance of Plant	1,455,222	850
Pupil Transportation	1,170,801	28,954
Central	110,459	8,308
Operation of Non-Instructional Services:		
Food Service Operations	0	799,919
Extracurricular Activities	246,060	167,811
Capital Outlay	4,502	121,953
Debt Service:		
Principal	0	180,000
Interest	0	72,998
<i>Total Expenditures</i>	<u>14,718,150</u>	<u>4,148,195</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>127,354</u>	<u>278,715</u>
OTHER FINANCING SOURCES AND USES:		
Proceeds from Sale of Capital Assets	6,821	0
Transfers Out	(250,000)	0
<i>Total Other Financing Sources and Uses</i>	<u>(243,179)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(115,825)	278,715
<i>Fund Balance at Beginning of Year (Restated, See Note 2)</i>	3,966,426	1,292,402
<i>Fund Balance at End of Year</i>	<u>\$ 3,850,601</u>	<u>\$ 1,571,117</u>

See accompanying notes to the basic financial statements.

East Holmes Local School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Total Governmental Funds	Net Changes in Fund Balances - Total Governmental Funds	\$ 162,890
\$ 8,249,594	Amounts reported for governmental activities in the statement of activities are different because:	
9,357,430	Governmental funds report capital outlays as expenditures.	
71,619	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 exceeds capital outlay in the current period.	
689,214	Capital Outlays	\$ 145,933
8,291	Loss on Capital Assets	(2,476)
388,896	Depreciation	(683,035)
21,837	Total	(539,578)
376,540	Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
108,993	Taxes	(4,328)
19,272,414	Intergovernmental Revenue	430,695
	Total	426,367
7,876,730	Repayment of bonds and notes payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
2,240,710		
406,410		
869,773	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
926,027		
27,526		
1,689,415	In the statement of activities, bond issuance costs are charged for the following:	
461,917	Amortization of Premium	18,781
1,456,072	Amortization of Loss	(13,866)
1,199,755	Amortization of Bond Issuance Costs	(4,916)
118,767	Accreted Interest Costs	(34,630)
799,919	Total	(34,631)
413,871	Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payables which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
126,455	Vacation Payable	6,781
180,000	Compensated Absences	(39,996)
72,998	Total	(33,215)
18,866,345	The internal service funds used by management to charge the costs of health insurance is included in the statement of activities and not on the governmental fund expenditures. This is the amount that expenditures exceeded revenues during the year.	
406,069		
6,821		
(250,000)		
(243,179)		
162,890		
5,258,828		
\$ 5,421,718	Change in Net Assets of Governmental Activities	\$ (26,359)

East Holmes Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Property and Other Local Taxes	\$ 7,405,000	\$ 7,580,000	\$ 7,579,609	\$ (391)
Intergovernmental	6,165,000	6,168,000	6,133,504	(34,496)
Interest	150,000	72,500	71,456	(1,044)
Tuition and Fees	590,000	715,000	683,724	(31,276)
Rent	17,500	17,500	8,291	(9,209)
Gifts and Donations	0	7,500	7,450	(50)
Miscellaneous	102,500	92,500	64,486	(28,014)
Total Revenues	<u>14,430,000</u>	<u>14,653,000</u>	<u>14,548,520</u>	<u>(104,480)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,824,197	7,661,422	7,489,003	172,419
Special	1,124,675	1,074,675	844,768	229,907
Vocational	391,630	391,630	378,263	13,367
Student Intervention	31,500	17,500	0	17,500
Support Services:				
Pupils	563,883	578,883	559,350	19,533
Instructional Staff	622,163	624,143	535,068	89,075
Board of Education	28,700	28,700	27,547	1,153
Administration	1,625,433	1,624,958	1,578,437	46,521
Fiscal	347,493	272,493	233,131	39,362
Operation and Maintenance of Plant	1,678,088	1,678,088	1,548,361	129,727
Pupil Transportation	1,221,430	1,235,430	1,200,061	35,369
Central	106,966	106,966	103,786	3,180
Extracurricular Activities	259,725	259,725	243,067	16,658
Capital Outlay	20,767	20,767	4,552	16,215
Total Expenditures	<u>15,846,650</u>	<u>15,575,380</u>	<u>14,745,394</u>	<u>829,986</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,416,650)</u>	<u>(922,380)</u>	<u>(196,874)</u>	<u>725,506</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Capital Assets	5,000	7,000	6,821	(179)
Transfers Out	(100,000)	(250,000)	(250,000)	0
Total Other Financing Sources and Uses	<u>(95,000)</u>	<u>(243,000)</u>	<u>(243,179)</u>	<u>(179)</u>
Net Change in Fund Balances	(1,511,650)	(1,165,380)	(440,053)	725,327
Fund Balance at Beginning of Year	5,048,495	5,048,495	5,048,495	0
Prior Year Encumbrances Appropriated	315,347	315,347	315,347	0
Fund Balance at End of Year	<u>\$ 3,852,192</u>	<u>\$ 4,198,462</u>	<u>\$ 4,923,789</u>	<u>\$ 725,327</u>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2011

	<u>Self-Insurance Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents in Segregated Accounts	\$ 175,310
	<hr/>
<i>Total Assets</i>	<hr/> 175,310 <hr/>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<hr/> 223,693
	<hr/>
<i>Total Liabilities</i>	<hr/> 223,693 <hr/>
NET ASSETS:	
Unrestricted	<hr/> \$ (48,383) <hr/> <hr/>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2011

	Self-Insurance Fund
OPERATING REVENUES:	
Charges for Services	\$ 2,129,339
OPERATING EXPENSES:	
Purchased Services	309,316
Claims	2,268,350
<i>Total Operating Expenses</i>	<i>2,577,666</i>
<i>Loss Before Contributions and Transfers</i>	<i>(448,327)</i>
Transfers In	250,000
<i>Net Change in Net Assets</i>	<i>(198,327)</i>
<i>Net Assets at Beginning of Year</i>	149,944
<i>Net Assets at End of Year</i>	<i>\$ (48,383)</i>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 20111

	Self-Insurance Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$ 2,129,339
Cash Payments for Claims	(2,141,052)
Cash Payments for Goods and Services	(309,316)
<i>Net Cash Used in Operating Activities</i>	(321,029)
Cash Flows from Noncapital Financing Activities	
Transfer In	250,000
<i>Net Decrease in Cash and Cash Equivalents</i>	(71,029)
<i>Cash and Cash Equivalents Beginning of Year</i>	246,339
<i>Cash and Cash Equivalents End of Year</i>	\$ 175,310
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$ (448,327)
Increase in Liabilities:	
Claims Payable	127,298
<i>Net Cash Used in Operating Activities</i>	\$ (321,029)

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2011

ASSETS:

Equity in Pooled Cash and Cash Equivalents	\$ 21,961
<i>Total Assets</i>	<u>\$ 21,961</u>

LIABILITIES:

Accounts Payable	\$ 149
Undistributed Monies	8,823
Due to Students	<u>12,989</u>
<i>Total Liabilities</i>	<u>\$ 21,961</u>

See accompanying notes to the basic financial statements

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

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

Average daily membership (ADM) as of October 1, 2010 was 1,850. The District employed 151 certificated employees and 95 non-certificated employees.

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

A. *BASIS OF PRESENTATION*

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

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

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

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

B. *FUND ACCOUNTING*

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

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

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

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

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

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

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

C. MEASUREMENT FOCUS

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All Non-Fiduciary assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

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

D. BASIS OF ACCOUNTING

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

fiscal year for which the taxes are levied. (See Note 8.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. BUDGETARY DATA

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

legal level of control has been established by the Board of Education at the function level within the General Fund. For all other funds, the legal level of control was at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2011.

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

F. CASH AND CASH EQUIVALENTS

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

During fiscal year 2011, investments were limited to STAROhio, the State Treasurer's Investment Pool and certificates of deposit. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2011. Certificates of deposit are reported at cost.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$71,069, which includes \$19,410 assigned from other District funds.

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

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

H. INVENTORY

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

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

I. RESTRICTED ASSETS

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

J. CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

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

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

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

K. COMPENSATED ABSENCES

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

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "mature compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported. For 2011, the retirement benefits of \$202,615 were paid using expendable available resources.

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

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

M. *NET ASSETS*

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

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

N. *FUND BALANCE RESERVES*

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

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

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

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

O. OPERATING REVENUES AND EXPENSES

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

P. INTERFUND ACTIVITY

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary and special items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

R. ESTIMATES

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

S. CHANGE IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2011, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of the GASB statement did not affect the presentation of the financial statements of the District.

T. RESTATEMENT OF FUND BALANCES

On July 1, 2011, the District implemented the Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type*

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

Definitions”. As a result, the public school support fund, previously reported as a Special Revenue Fund, was reclassified to the General Fund for GAAP reporting purposes. The following is the effect of that change in fund balances:

	General Fund	Other Governmental Funds
Fund Balance June 30, 2010	\$ 3,870,711	\$ 1,388,117
Fund Reclassification	95,715	(95,715)
Restated Fund Balance July 1, 2010	\$ 3,966,426	\$ 1,292,402

NOTE 3 BUDGETARY BASIS OF ACCOUNTING

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

- A. Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).
- C. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and note disclosures in the proprietary fund type (GAAP basis).
- D. As part of Governmental Accounting Standards Board No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies and public school support funds.

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

Net Change in Fund Balance

	<u>General Fund</u>
GAAP Basis	\$ (115,825)
Net Adjustments:	
Revenue Accruals	(60,572)
Expenditure Accruals	(46,840)
Funds Budgeted Elsewhere	(4,436)
Encumbrances	<u>(212,380)</u>
Budget Basis	<u>\$ (440,053)</u>

NOTE 4 DEPOSITS AND INVESTMENTS

The East Holmes Local School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the Financial Statements as "Equity in pooled cash and cash equivalents." The amount held at fiscal year end for the Employee Benefit Self Insurance Fund was \$175,310. All benefit deposits are made to the Plan Administrator's Depository Account. Collateral is held by a qualified third-party trustee in the name of the District.

A. LEGAL REQUIREMENTS

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

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

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institutions as security for repayment, by surety company bonds deposited with the District by the financial

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited within the institution.

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

B. DEPOSITS

At June 30, 2011, the amount of the East Holmes Local School District deposits was \$7,151,832. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$6,708,267 of the District's bank balance of \$7,252,254 was exposed to custodial risk as discussed below, while \$543,987 was covered by Federal Deposit Insurance Corporation.

C. INVESTMENTS

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$ 111,384	\$ 111,384

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

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the District at June 30, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	\$ 111,384	100.0%

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

NOTE 5 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>Governmental Activities</u>				
Capital Assets, not being Depreciated:				
Land	\$ 1,067,816	\$ 0	\$ 0	\$ 1,067,816
Capital Assets, being Depreciated:				
Land Improvements	1,620,594	24,711	0	1,645,305
Buildings & Building Improvements	15,737,253	45,572	0	15,782,825
Furniture, Fixtures & Equipment	1,762,542	31,609	(13,294)	1,780,857
Vehicles	<u>1,605,462</u>	<u>44,041</u>	<u>(53,545)</u>	<u>1,595,958</u>
Total Capital Assets, being Depreciated	<u>20,725,851</u>	<u>145,933</u>	<u>(66,839)</u>	<u>20,804,945</u>
Less Accumulated Depreciation:				
Land Improvements	(520,437)	(74,279)	0	(594,716)
Buildings & Building Improvements	(7,790,780)	(402,540)	0	(8,193,320)
Furniture, Fixtures & Equipment	(1,239,864)	(90,707)	10,818	(1,319,754)
Vehicles	<u>(1,022,110)</u>	<u>(115,509)</u>	<u>53,545</u>	<u>(1,084,074)</u>
Total Accumulated Depreciation	<u>(10,573,191)</u>	<u>(683,035)</u>	<u>64,363</u>	<u>(11,191,864)</u>
Total Capital Assets being Depreciated, net	<u>10,152,660</u>	<u>(537,102)</u>	<u>(2,476)</u>	<u>9,613,081</u>
Governmental Activities Capital Assets, Net	<u>\$11,220,476</u>	<u>\$ (537,102)</u>	<u>\$ (2,476)</u>	<u>\$10,680,897</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 240,641
Special	28,979
Vocational	12,326
Support Services:	
Pupils	3,627
Instructional Staff	40,825
Administration	22,804
Fiscal Services	4,368
Operation and Maintenance of Plant	33,226
Pupil Transportation	114,232
Food Services Operations	26,840
Extracurricular Activities	<u>155,167</u>
Total Depreciation Expense	<u>\$ 683,035</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

NOTE 6 RECEIVABLES

Receivables at June 30, 2011, consisted of taxes, intergovernmental, accrued interest and accounts receivable. All receivables are considered collectible in full due to the ability for foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

The following is a summary of the intergovernmental receivables:

<u>Governmental Activities:</u>	
Tuition from Other Districts	\$ 4,714
Fuel Tax Refund	1,838
Medicaid Services	1,856
Grants	<u>1,040,063</u>
Total Intergovernmental Receivables	<u>\$1,048,471</u>

NOTE 7 GENERAL LONG-TERM OBLIGATIONS

	<u>Outstanding</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirement/ Amortizations</u>	<u>Outstanding</u> <u>June 30, 2011</u>	<u>Amounts Due</u> <u>In One Year</u>
Compensated Absences Payable	\$1,253,574	\$ 231,220	\$ (191,224)	\$1,293,570	\$ 96,745
2000 Bonds Payable (5.0%-6.3%)	145,000	0	(145,000)	0	0
2007 Refunding Bonds (4.0%)					
General Obligation Bond	1,750,000	0	(35,000)	1,715,000	190,000
Capital Appreciation Bond	65,000	0	0	65,000	0
Accretion on Capital Appreciation	69,855	0	34,630	104,485	0
Premium	187,811	0	(18,781)	169,030	0
Accounting Loss	<u>(138,655)</u>	<u>0</u>	<u>13,866</u>	<u>(124,789)</u>	<u>0</u>
Total Long-Term Obligations	<u>\$3,332,585</u>	<u>\$ 231,220</u>	<u>\$(341,509)</u>	<u>\$3,222,296</u>	<u>\$286,745</u>

Compensated absences will be paid from the fund in which the employee's salaries are paid. These funds are the General Fund, the Food Service Operations Fund and Federal grants funds, including IDEA-B, Title I, Title II-A and Title III. The bonds are paid from the Bond Retirement fund.

The 2001 Hiland renovation bonds were originally issued to update and expand the Hiland High School and Middle School facility. These bonds were refunded through the 2007 school improvement refunding general obligation bonds. At the date of refunding, \$2,134,115 (including premium and after underwriting fees and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the 2000 School Improvement Bonds.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

In March, 2007, the District issued \$1,940,000 of general obligation bonds to refund the 2000 school improvement general obligation bonds. The bonds were issued for a 14 year period with final maturity at December 1, 2020. These refunding bonds were issued with a premium of \$262,935 which is reported as an increase to bonds payable. The premium is being amortized to interest expense over the life of the bonds, using the straight-line method. The amortization of the premium for fiscal year 2011 was \$18,781. The issuance costs of \$68,819 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2011 was \$4,916. The refunding resulted in a difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2011 was \$13,866. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and cash flows required to service the new debt of \$205,366. The issuance resulted in an economic gain of \$85,993.

The capital appreciation bonds for the 2007 issue mature on December 1, 2014 and December 1, 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$420,000. For fiscal year 2011, \$34,630 was accreted for a total bond liability of \$169,485.

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2011, are as follows:

Year Ending June 30,	<u>2007 Refunding</u>		<u>2007 Capital Appreciation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$190,000	\$ 64,800	\$ 0	\$ 0
2013	195,000	57,100	0	0
2014	205,000	49,100	0	0
2015	0	45,000	36,198	173,802
2016	0	45,000	28,802	181,198
2017-2021	<u>1,125,000</u>	<u>115,900</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,715,000</u>	<u>\$376,900</u>	<u>\$ 65,000</u>	<u>\$ 355,000</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

NOTE 8 PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property) represents the collection of 2010 taxes. Tangible personal property taxes were not assessed in calendar year 2011 was reduced to zero for 2011.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in 2011 and the tax on telephone and telecommunications property will be eliminated by calendar year 2012. The tax was phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2011 the District was fully reimbursed for the lost revenue. In calendar years 2013 – 2015, the reimbursements will be phased out.

The District received property taxes from Holmes and Wayne County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2011 was \$417,833 in the general fund, \$13,526 in the debt service fund, and \$17,724 in the capital projects fund. The amount available as an advance at June 30, 2010 was \$341,700 in the general fund, \$9,536 in the debt service fund, and \$14,879 in the capital projects fund.

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

The assessed property values upon which the fiscal year 2011 taxes were collected are:

Collections	2010 Second Half		2011 First Half	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$367,917,540	97.86%	\$385,382,530	98.06%
Public Utility Personal	<u>8,042,400</u>	<u>2.14%</u>	<u>7,644,580</u>	<u>1.94%</u>
Total Valuation	<u>\$375,959,940</u>	<u>100.00%</u>	<u>\$393,027,110</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 \$25.70		 \$25.60	

NOTE 9 RISK MANAGEMENT

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

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

The District maintains a health insurance plan for its employees. The monthly insurance premiums are paid to the Plan Administrator, Aultcare Corporation, and recorded as an expense on the District's books. The District accounts for this activity in an Internal Service Fund. The plan includes stop loss coverage with a limit of \$125,000 per individual and \$2,489,139 in the aggregate, per year.

The claims liability of \$223,693 reported in the fund at June 30, 2011, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

	Balance at Beginning of <u>Year</u>	<u>Claims</u>	<u>Payments</u>	Balance at End of <u>Year</u>
June 30, 2011	\$ 96,395	\$2,268,350	\$2,141,052	\$ 223,693
June 30, 2010	\$178,392	\$1,837,171	\$1,919,168	\$ 96,395

NOTE 10 DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. For fiscal year 2011, 11.81 percent was allocated to pensions and death benefits. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board. The Retirement Board acting with the advice of their actuary, allocates the employer contributions rate amount four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Healthcare Fund) of the system. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$329,084, \$338,601, and \$277,031, respectively; 85.5 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. STATE TEACHERS RETIREMENT SYSTEM

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,115,814, \$1,125,771, and \$1,095,970 respectively; 83.6 percent has been contributed for fiscal year 2011, and 100 percent for the fiscal year 2010 and 2009. Contributions to the DC and combined plans for fiscal year 2011 were \$6,420 made by the school district and \$15,923 made by the plan members.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2011, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

State Statute permits SERS to fund health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2011, 1.43 percent of

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2011 (Continued)

covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, the amount was \$35,191.

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

The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$59,288, \$59,288, and \$149,120 respectively; 45.40 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$21,177, \$20,136, and \$18,732 respectively; 85.5 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. STATE TEACHERS RETIREMENT SYSTEM

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

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$85,338, \$85,250, and \$85,072 respectively; 83.6 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

NOTE 12 NON-CASH TRANSACTIONS

The District receives food commodities for its food service obligations. The revenue recognized in intergovernmental income from the non-cash commodities was \$136,316.

NOTE 13 CONTINGENCIES

GRANTS

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District at June 30, 2011.

NOTE 14 STATUTORY RESERVES

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

During the fiscal year ended June 30, 2011, the reserve activity (GAAP basis) was as follows:

	<u>Textbooks</u>	<u>Improvements</u>
Set Aside Restricted Balance, June 30, 2010	\$0	\$0
Current Year Set Aside Requirement	294,612	294,612
Contributions in Excess of the Current Fiscal Year		
Set Aside Requirement	0	0
Current Year Qualifying Expenditures	(207,805)	(14,981)
Excess Qualified Expenditures from Prior Years	(25,832)	0
Current Year Offsets	0	(325,881)
Waiver Granted by the Department of Education	0	0
Prior Year Offsets from Bond Proceeds	0	0
Total	<u>\$ 60,975</u>	<u>\$ (46,250)</u>
Balance Carried Forward to Fiscal Year 2012	<u>\$ 60,975</u>	<u>\$0</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

The amount of qualifying expenditures exceeding the set-aside requirement in the Textbook Reserve may be carried forward to reduce the set-aside requirement for future years. Excess expenditures in the Capital Maintenance Reserve set aside may not be carried forward to reduce future years' requirements. However, in both reserves, set aside amounts not spent must be carried forward to be included in future years' requirements. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law.

NOTE 15 **JOINTLY GOVERNED ORGANIZATIONS**

A. TRI-COUNTY COMPUTER SERVICE ASSOCIATION (TCCSA)

TCCSA is a jointly governed organization comprised of 28 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these district support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri County Educational Service Center, located in Wooster, Ohio, which serves as fiscal agent. During fiscal year 2011, the District paid approximately \$41,811 in administrative fees to the Tri-County Educational Service Center.

B. BUCKEYE CAREER CENTER (Career Center)

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The Board controls the financial activity of the Career center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The continued existence of the Career Center is not dependent on the District's continued participation and measurable equity interest exists. During fiscal year 2011, no monies were paid to the Career Center by the District.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

NOTE 16 OPERATING LEASES – LESSEE DISCLOSURE

The District has entered into multiple operating lease agreements for equipment which expire at various times in 2012 and 2014. All equipment is leased for up to five years. Equipment operating lease expenses totaled \$20,536 in 2011.

The agreement provides for annual lease payments as follows:

<u>Year</u>	<u>Amount</u>
2012	\$19,891
2013	10,660
2014	8,814
2015	<u>734</u>
Total Minimum Lease Payments	<u>\$40,099</u>

NOTE 17 COMPLIANCE

Deficit Fund Balances – Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Cafeteria Fund	\$ 5,460
Title VI-B Grant	352
Title I Grant	14,716
Title II-A Grant	<u>1,028</u>
Total Deficit Fund Balances	<u>\$21,556</u>

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011
(Continued)

NOTE 18 FUND BALANCE

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

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

	<u>General</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Nonspendable for:			
Inventories	\$ 64,740	\$ 52,063	\$ 116,803
Prepaid Items	<u>10,245</u>	<u>0</u>	<u>10,245</u>
Total Nonspendable	74,985	52,063	127,048
Restricted for:			
Debt Service	0	333,652	333,652
Capital Outlay	0	1,019,356	1,019,356
Statutory Reserves	60,975	0	60,975
Extracurricular	0	175,473	175,473
Targeted Academic Assistance	0	6,659	6,659
Other Purposes	<u>0</u>	<u>5,470</u>	<u>5,470</u>
Total Restricted	60,975	1,540,610	1,601,585
Assigned for:			
Encumbrances	170,023	0	170,023
Public School Support	77,016	0	77,016
School Supplies	<u>4,197</u>	<u>0</u>	<u>4,197</u>
Total Assigned	251,236	0	251,236
Unassigned	<u>3,463,405</u>	<u>(21,556)</u>	<u>3,441,849</u>
Total Fund Balance (Deficit)	<u>\$3,850,601</u>	<u>\$1,571,117</u>	<u>\$5,421,718</u>

December 30, 2011

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

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the East Holmes Local School District (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

East Holmes Local School District, Holmes County, Ohio
Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government
Auditing Standards
Page 2

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 30, 2011.

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

Hea & Associates, Inc.

December 30, 2011

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

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

Compliance

We have audited the compliance of the East Holmes Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs 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 Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Hea & Associates, Inc.

**EAST HOLMES LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
U. S. Department of Education (Passed Through Ohio Department of Education):				
<i>Title I Cluster</i>				
Title I	84.010	2010	\$ 165,999	\$ 163,945
Title I	84.010	2011	989,422	882,190
Title I - ARRA	84.389	2010	55,000	54,483
Title I - ARRA	84.389	2011	347,500	348,988
Total Title I			1,557,921	1,449,606
<i>Special Education Cluster</i>				
IDEA-B	84.027	2010	52,500	69,341
IDEA-B	84.027	2011	352,879	329,419
IDEA-B - ARRA	84.391	2010	22,500	35,459
IDEA-B - ARRA	84.391	2011	195,000	186,052
Total Special Education Cluster			622,879	620,271
Title II-D	84.318	2010	1,300	2,296
Title II-D	84.318	2011	3,817	3,817
Total Title II-D			5,117	6,113
Title III	84.365	2010	17,281	22,407
Title III	84.365	2011	62,823	46,397
Total Title III			80,104	68,804
State Fiscal Stabilization Fund - ARRA	84.394	2011	348,941	348,941
Title II-A	84.367	2010	38,000	41,462
Title II-A	84.367	2011	216,916	200,434
Total Title II-A			254,916	241,896
Total U.S. Department of Education			2,869,878	2,735,631
U. S. Department of Agriculture (Passed Through Ohio Department of Education):				
Non-Cash Assistance:				
National School Lunch Program	10.555		54,700	54,700
Cash Assistance:				
National School Lunch Program	10.555		267,928	267,928
Total National School Lunch Program			322,628	322,628
Total U.S. Department of Agriculture			322,628	322,628
Total Federal Assistance			\$ 3,192,506	\$ 3,058,259

See accompanying notes to the Schedule of Expenditures of Federal Awards

East Holmes Local School District
Holmes County, Ohio

Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2011

Note A – National School Lunch Program

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

Note B – Food Donation Program

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

Note C - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education's (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2011, the ODE authorized the following transfers:

CFDA Number	Program Title	Program Year	Transfer Out	Transfer In
84.010	Title I	2010	\$ 8,895	
84.010	Title I	2011		\$ 8,895
84.027	IDEA-B	2010	2,692	
84.027	IDEA-B	2011		2,692
84.389	Title I - ARRA	2010	25,018	
84.389	Title I - ARRA	2011		25,018
84.391	IDEA-B - ARRA	2010	11,372	
84.391	IDEA-B - ARRA	2011		11,372

**EAST HOLMES LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	National School Lunch Program CFDA: 10.555 Special Education Cluster CFDA: 84.027 & 84.391 - ARRA State Fiscal Stabilization Fund - ARRA CFDA: 84.394 Title I Cluster CFDA: 84.010 & 84.389 - ARRA
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None were noted

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None were noted

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

December 30, 2011

Independent Accountant's Report on Applying Agreed-Upon Procedure

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether East Holmes Local School District has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on May 16, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Dave Yost • Auditor of State

EAST HOLMES LOCAL SCHOOL DISTRICT

HOLMES COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 27, 2012**