



**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

East Holmes Local School District
Holmes County
P.O. Box 182, CR 77
Berlin, Ohio 44610

To the Board of Education:

We have audited the accompanying general purpose financial statements of the East Holmes Local School District, Holmes County, Ohio (the District) as of and for the year ended June 30, 2002, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 5 in the general purpose financial statements, certain errors and omissions resulting in the understatement of fixed assets in the General Fixed Asset Account Group were discovered during the year. The beginning balance for the General Fixed Assets Account Group was restated as of July 1, 2001. In addition, as described in Note 18, the School Buildings Staff and Flower Funds were reclassified from the Expendable Trust Fund Type to the Special Revenue Fund Type.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the District, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for 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 general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 31, 2002

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East Holmes Local School District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$4,145,704	\$530,827	\$258,518	\$154,484
Receivables:				
Taxes	6,882,910	0	492,626	213,456
Accounts Receivable	9,711	0	0	0
Intergovernmental	14,354	23,758	0	0
Accrued Interest	4,449	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	73,517	0	0	0
Prepaid Items	14,755	0	0	0
Fixed Assets (net, where applicable, of accumulated depreciation)	0	0	0	0
<u>Other Debits:</u>				
Amount in Debt Service Retirement Fund	0	0	0	0
Amount to be Provided from General Governmental Resources	0	0	0	0
Total Assets and Other Debits	\$11,145,400	\$554,585	\$751,144	\$367,940

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		(Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long- Term Obligations	
\$72,198	\$615,783	\$14,115	\$0	\$0	\$5,791,629
0	0	0	0	0	7,588,992
0	4,264	0	0	0	13,975
17,684	0	0	0	0	55,796
0	0	0	0	0	4,449
18,332	0	0	0	0	18,332
240	0	0	0	0	73,757
0	0	0	0	0	14,755
100,246	0	0	18,841,644	0	18,941,890
0	0	0	0	258,518	258,518
0	0	0	0	4,687,805	4,687,805
<u>\$208,700</u>	<u>\$620,047</u>	<u>\$14,115</u>	<u>\$18,841,644</u>	<u>\$4,946,323</u>	<u>\$37,449,898</u>

East Holmes Local School District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities, Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$96,687	\$17,054	\$0	\$14,888
Contracts Payable	0	0	0	16,050
Accrued Wages and Benefits Payable	818,200	143,898	0	0
Compensated Absences Payable	6,999	0	0	0
Intergovernmental Payable	173,741	29,175	0	0
Deferred Revenue	6,693,838	0	479,094	207,592
Due to Students	0	0	0	0
Notes Payable	0	0	0	0
Claims Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	7,789,465	190,127	479,094	238,530
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings, Unreserved (Deficit)	0	0	0	0
<u>Fund Balance:</u>				
Reserved for Prepaids	14,755	0	0	0
Reserved for Encumbrances	142,662	17,203	0	67,900
Reserved for Inventory	73,517	0	0	0
Reserved for Taxes	189,072	0	13,532	5,864
Unreserved, Undesignated	2,935,929	347,255	258,518	55,646
Total Fund Equity and Other Credits	3,355,935	364,458	272,050	129,410
Total Liabilities, Fund Equity and Other Credits	\$11,145,400	\$554,585	\$751,144	\$367,940

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		(Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long- Term Obligations	
\$1,435	\$0	\$928	\$0	\$0	\$130,992
0	0	0	0	0	16,050
28,665	0	0	0	0	990,763
17,523	0	0	0	682,981	707,503
33,594	0	0	0	62,342	298,852
15,525	0	0	0	0	7,396,049
0	0	13,138	0	0	13,138
0	0	0	0	90,000	90,000
0	88,298	0	0	0	88,298
0	0	0	0	4,111,000	4,111,000
<u>96,742</u>	<u>88,298</u>	<u>14,066</u>	<u>0</u>	<u>4,946,323</u>	<u>13,842,645</u>
0	0	0	18,841,644	0	18,841,644
111,958	531,749	0	0	0	643,707
0	0	0	0	0	14,755
0	0	0	0	0	227,765
0	0	0	0	0	73,517
0	0	0	0	0	208,468
0	0	49	0	0	3,597,397
<u>111,958</u>	<u>531,749</u>	<u>49</u>	<u>18,841,644</u>	<u>0</u>	<u>23,607,253</u>
<u>\$208,700</u>	<u>\$620,047</u>	<u>\$14,115</u>	<u>\$18,841,644</u>	<u>\$4,946,323</u>	<u>\$37,449,898</u>

East Holmes Local School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	General	Special Revenue	Debt Service
<u>Revenues:</u>			
Taxes	\$6,350,258	\$0	\$525,783
Intergovernmental	4,808,068	1,417,352	47,718
Interest	201,507	0	0
Tuition and Fees	317,877	6,512	0
Rent	16,250	0	0
Extracurricular Activities	0	286,112	0
Gifts and Donations	0	10,943	0
Miscellaneous	108,237	10,250	0
Total Revenues	<u>11,802,197</u>	<u>1,731,169</u>	<u>573,501</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	5,204,733	265,204	0
Special	796,682	930,711	0
Vocational	319,980	1,516	0
Other	93,643	0	0
Support Services:			
Pupils	232,504	211,601	0
Instructional Staff	630,973	75,156	0
Board of Education	23,489	0	0
Administration	1,032,693	120,573	0
Fiscal	326,474	5,000	12,681
Operation of Maintenance of Plant	1,041,635	0	0
Pupil Transportation	749,084	13,965	0
Central	45,921	36,032	0
Extracurricular Activities	106,725	125,702	0
Capital Outlay	346,532	0	0
Debt Service - Principal	0	0	300,000
Debt Service - Interest and Fiscal Charges	0	0	226,723
Total Expenditures	<u>10,951,068</u>	<u>1,785,460</u>	<u>539,404</u>
Excess of Revenues Over (Under) Expenditures	851,129	(54,291)	34,097
<u>Other Financing Sources:</u>			
Proceeds from Sale of Fixed Assets	10,925	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	862,054	(54,291)	34,097
(Decrease) in Reserve for Inventory	(19,943)	0	0
Fund Balances Beginning of Year, As Restated	<u>2,513,824</u>	<u>418,749</u>	<u>237,953</u>
Fund Balances End of Year	<u><u>\$3,355,935</u></u>	<u><u>\$364,458</u></u>	<u><u>\$272,050</u></u>

See accompanying notes to the general purpose financial statements

Capital Projects	Expendable Trust	Totals (Memorandum Only)
\$203,429	\$0	\$7,079,470
83,626	0	6,356,764
29,095	0	230,602
0	0	324,389
0	0	16,250
0	0	286,112
0	0	10,943
0	0	118,487
<u>316,150</u>	<u>0</u>	<u>14,423,017</u>
63,570	0	5,533,507
0	0	1,727,393
0	0	321,496
0	0	93,643
0	0	444,105
0	0	706,129
0	0	23,489
0	0	1,153,266
5,034	0	349,189
2,989	0	1,044,624
0	0	763,049
0	0	81,953
0	0	232,427
1,907,355	0	2,253,887
27,000	0	327,000
0	0	226,723
<u>2,005,948</u>	<u>0</u>	<u>15,281,880</u>
(1,689,798)	0	(858,863)
0	0	10,925
(1,689,798)	0	(847,938)
0	0	(19,943)
<u>1,819,208</u>	<u>49</u>	<u>4,989,783</u>
<u>\$129,410</u>	<u>\$49</u>	<u>\$4,121,902</u>

East Holmes Local School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	----- General -----		
	Revised <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<u>Revenues:</u>			
Taxes	\$6,402,750	\$6,386,497	(\$16,253)
Intergovernmental	4,814,000	4,804,017	(9,983)
Interest	207,000	182,180	(24,820)
Tuition and Fees	337,500	317,877	(19,623)
Rent	20,000	16,250	(3,750)
Extracurricular Activities	0	0	0
Gifts and Donations	0	0	0
Miscellaneous	150,750	91,629	(59,121)
Total Revenues	<u>11,932,000</u>	<u>11,798,450</u>	<u>(133,550)</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	5,655,865	5,282,325	373,540
Special	869,075	794,151	74,924
Vocational	384,450	320,187	64,263
Other	102,000	93,643	8,357
Support Services:			
Pupils	242,900	243,736	(836)
Instructional Staff	659,561	675,840	(16,279)
Board of Education	26,000	23,924	2,076
Administration	1,113,295	1,051,745	61,550
Fiscal	382,300	327,015	55,285
Operation and Maintenance of Plant	1,245,900	1,087,048	158,852
Pupil Transportation	867,325	773,115	94,210
Central	75,000	44,306	30,694
Extracurricular Activities	206,600	108,369	98,231
Capital Outlay	367,500	429,056	(61,556)
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	<u>12,197,771</u>	<u>11,254,460</u>	<u>943,311</u>
Excess of Revenues Over (Under) Expenditures	(265,771)	543,990	809,761

----- Special Revenue -----			----- Debt Service -----		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$565,000	\$531,636	(\$33,364)
1,619,644	1,597,153	(22,491)	55,000	47,718	(7,282)
0	0	0	0	0	0
8,415	6,513	(1,902)	0	0	0
0	0	0	0	0	0
305,405	286,112	(19,293)	0	0	0
12,327	10,943	(1,384)	0	0	0
17,025	10,250	(6,775)	0	0	0
<u>1,962,816</u>	<u>1,910,971</u>	<u>(51,845)</u>	<u>620,000</u>	<u>579,354</u>	<u>(40,646)</u>
273,147	259,647	13,500	0	0	0
1,041,413	925,227	116,186	0	0	0
2,300	2,179	121	0	0	0
0	0	0	0	0	0
231,356	216,634	14,722	0	0	0
99,064	77,502	21,562	0	0	0
0	0	0	0	0	0
140,146	121,758	18,388	0	0	0
5,000	5,000	0	22,500	12,681	9,819
0	0	0	0	0	0
13,965	13,965	0	0	0	0
27,550	37,029	(9,479)	0	0	0
151,645	128,962	22,683	0	0	0
0	0	0	0	0	0
0	0	0	300,000	300,000	0
0	0	0	240,000	226,723	13,277
<u>1,985,586</u>	<u>1,787,903</u>	<u>197,683</u>	<u>562,500</u>	<u>539,404</u>	<u>23,096</u>
(22,770)	123,068	145,838	57,500	39,950	(17,550)

East Holmes Local School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	----- General -----		
	<u>Revised Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets	12,500	10,925	(1,575)
Operating Transfers Out	<u>(16,000)</u>	<u>0</u>	<u>16,000</u>
Total Other Financing Sources (Uses)	<u>(3,500)</u>	<u>10,925</u>	<u>14,425</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(269,271)	554,915	824,186
Fund Balances Beginning of Year	2,688,631	2,688,631	0
Prior Year Encumbrances Appropriated	<u>665,903</u>	<u>665,903</u>	<u>0</u>
Fund Balances End of Year	<u><u>\$3,085,263</u></u>	<u><u>\$3,909,449</u></u>	<u><u>\$824,186</u></u>

----- Special Revenue -----			----- Debt Service -----		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
0	0	0	0	0	0
0	0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(22,770)	123,068	145,838	57,500	39,950	(17,550)
310,676	310,676	0	218,568	218,568	0
62,829	62,829	0	0	0	0
<u>350,735</u>	<u>496,573</u>	<u>145,838</u>	<u>276,068</u>	<u>258,518</u>	<u>(\$17,550)</u>

East Holmes Local School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	----- Capital Projects -----		
	<u>Revised</u> <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<u>Revenues:</u>			
Taxes	\$205,250	\$204,882	(\$368)
Intergovernmental	36,950	83,626	46,676
Interest	75,000	52,064	(22,936)
Tuition and Fees	0	0	0
Rent	0	0	0
Extracurricular Activities	0	0	0
Gifts and Donations	0	0	0
Miscellaneous	0	0	0
Total Revenues	<u>317,200</u>	<u>340,572</u>	<u>23,372</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	16,283	74,710	(58,427)
Special	0	0	0
Vocational	0	0	0
Other	0	0	0
Support Services:			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	7,500	5,034	2,466
Operation and Maintenance of Plant	5,500	2,268	3,232
Pupil Transportation	0	0	0
Central	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	379,500	1,975,867	(1,596,367)
Debt Service:			
Principal Retirement	27,000	27,000	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	<u>435,783</u>	<u>2,084,879</u>	<u>(1,649,096)</u>
Excess of Revenues Over (Under) Expenditures	(118,583)	(1,744,307)	(1,625,724)

----- Expendable Trust -----			Totals ----- (Memorandum Only) -----		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$7,173,000	\$7,123,015	(\$49,985)
0	0	0	6,525,594	6,532,514	6,920
0	0	0	282,000	234,244	(47,756)
0	0	0	345,915	324,390	(21,525)
0	0	0	20,000	16,250	(3,750)
0	0	0	305,405	286,112	(19,293)
0	0	0	12,327	10,943	(1,384)
0	0	0	167,775	101,879	(65,896)
<u>0</u>	<u>0</u>	<u>0</u>	<u>14,832,016</u>	<u>14,629,347</u>	<u>(202,669)</u>
0	0	0	5,945,295	5,616,682	328,613
0	0	0	1,910,488	1,719,378	191,110
0	0	0	386,750	322,366	64,384
0	0	0	102,000	93,643	8,357
0	0	0	474,256	460,370	13,886
0	0	0	758,625	753,342	5,283
0	0	0	26,000	23,924	2,076
0	0	0	1,253,441	1,173,503	79,938
0	0	0	417,300	349,730	67,570
0	0	0	1,251,400	1,089,316	162,084
0	0	0	881,290	787,080	94,210
250	0	250	102,800	81,335	21,465
0	0	0	358,245	237,331	120,914
0	0	0	747,000	2,404,923	(1,657,923)
0	0	0	327,000	327,000	0
0	0	0	240,000	226,723	13,277
<u>250</u>	<u>0</u>	<u>250</u>	<u>15,181,890</u>	<u>15,666,646</u>	<u>(484,756)</u>
(250)	0	250	(349,874)	(1,037,299)	(687,425)

East Holmes Local School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	Capital Projects		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets	0	0	0
Operating Transfers Out	0	0	0
Total Other Financing Sources (Uses)	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(118,583)	(1,744,307)	(1,625,724)
Fund Balances Beginning of Year	158,585	158,585	0
Prior Year Encumbrances Appropriated	1,641,369	1,641,369	0
Fund Balances End of Year	\$1,681,371	\$55,647	(\$1,625,724)

See accompanying notes to the general purpose financial statements

----- Expendable Trust -----			Totals ----- (Memorandum Only) -----		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
0	0	0	12,500	10,925	(1,575)
0	0	0	(16,000)	0	16,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,500)</u>	<u>10,925</u>	<u>14,425</u>
(250)	0	250	(353,374)	(1,026,374)	(673,000)
49	49	0	3,376,509	3,376,509	0
0	0	0	2,370,101	2,370,101	0
<u>(\$201)</u>	<u>\$49</u>	<u>\$250</u>	<u>\$5,393,236</u>	<u>\$4,720,236</u>	<u>(\$673,000)</u>

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East Holmes Local School District
 Combined Statement of Revenues, Expenses and Changes in Retained Earnings
 All Proprietary Fund Types
 For the Fiscal Year Ended June 30, 2002

	Enterprise	Internal Service	Totals (Memorandum Only)
<u>Operating Revenues:</u>			
Sales	\$309,554	\$0	\$309,554
Charges for Service	0	845,630	845,630
Other Revenues	833	4,264	5,097
Total Operating Revenues	310,387	849,894	1,160,281
<u>Operating Expenses:</u>			
Salaries	198,569	0	198,569
Fringe Benefits	79,797	0	79,797
Purchased Services	25,265	167,036	192,301
Materials and Supplies	26,958	0	26,958
Cost of Sales	238,951	0	238,951
Depreciation	15,995	0	15,995
Claims	0	985,926	985,926
Other	2,834	0	2,834
Total Operating Expenses	588,369	1,152,962	1,741,331
Operating (Loss)	(277,982)	(303,068)	(581,050)
<u>Non-Operating Revenues:</u>			
Federal Donated Commodities	72,001	0	72,001
Interest Income	2,103	0	2,103
Operating Grants	157,168	0	157,168
Total Non-Operating Revenues	231,272	0	231,272
Net (Loss)	(46,710)	(303,068)	(349,778)
Retained Earnings at Beginning of Year	158,668	834,817	993,485
Retained Earnings at End of Year	\$111,958	\$531,749	\$643,707

See accompanying notes to the general purpose financial statements.

East Holmes Local School District
 Combined Statement of Revenues, Expenses and Changes in Fund Equity
 Budget and Actual (Budget Basis) - All Proprietary Fund Types
 For the Fiscal Year Ended June 30, 2002

	Enterprise		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Sales	\$314,000	\$309,555	(\$4,445)
Charges for Services	0	0	0
Other Revenues	4,250	833	(3,417)
Total Operating Revenues	318,250	310,388	(7,862)
Operating Expenses:			
Salaries	200,000	197,152	2,848
Fringe Benefits	88,025	85,085	2,940
Purchased Services	29,250	29,393	(143)
Materials and Supplies	199,750	191,713	8,037
Claims	0	0	0
Other	3,000	2,834	166
Capital Outlay	7,500	7,041	459
Total Operating Expenses	527,525	513,218	14,307
Operating Income (Loss)	(209,275)	(202,830)	6,445
Non-Operating Revenues and Expenses:			
Interest	2,500	2,103	(397)
Federal and State Subsidies	164,000	139,484	(24,516)
Total Non-Operating Revenues and Expenses	166,500	141,587	(24,913)
Excess of Revenues and Other Over (Under) Expenses and Other	(42,775)	(61,243)	(18,468)
Fund Balances at Beginning of Year	121,960	121,960	0
Prior Year Encumbrances Appropriated	2,152	2,152	0
Fund Balances End of Year	\$81,337	\$62,869	(\$18,468)

See accompanying notes to the general purpose financial statements.

----- Internal Service -----			Totals ----- (Memorandum Only) -----		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$314,000	\$309,555	(\$4,445)
855,000	845,630	(9,370)	855,000	845,630	(9,370)
0	0	0	4,250	833	(3,417)
<u>855,000</u>	<u>845,630</u>	<u>(9,370)</u>	<u>1,173,250</u>	<u>1,156,018</u>	<u>(17,232)</u>
0	0	0	200,000	197,152	2,848
0	0	0	88,025	85,085	2,940
172,500	167,037	5,463	201,750	196,430	5,320
0	0	0	199,750	191,713	8,037
1,000,000	966,615	33,385	1,000,000	966,615	33,385
0	0	0	3,000	2,834	166
0	0	0	7,500	7,041	459
<u>1,172,500</u>	<u>1,133,652</u>	<u>38,848</u>	<u>1,700,025</u>	<u>1,646,870</u>	<u>53,155</u>
(317,500)	(288,022)	29,478	(526,775)	(490,852)	35,923
0	0	0	2,500	2,103	(397)
0	0	0	164,000	139,484	(24,516)
<u>0</u>	<u>0</u>	<u>0</u>	<u>166,500</u>	<u>141,587</u>	<u>(24,913)</u>
(317,500)	(288,022)	29,478	(360,275)	(349,265)	11,010
903,805	903,805	0	1,025,765	1,025,765	0
0	0	0	2,152	2,152	0
<u>\$586,305</u>	<u>\$615,783</u>	<u>\$29,478</u>	<u>\$667,642</u>	<u>\$678,652</u>	<u>\$11,010</u>

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East Holmes Local School District
 Combined Statement of Cash Flows - All Proprietary Fund Types
 For the Fiscal Year Ended June 30, 2002

	Enterprise Funds	Internal Service Funds	Totals (Memorandum Only)
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows From (Used for) Operating Activities:</u>			
Cash Received from Customers	\$310,387	\$0	\$310,387
Cash Received from Quasi-External Transactions with Other Funds	0	845,630	845,630
Cash Payments to Suppliers for Goods and Services	(214,611)	(167,036)	(381,647)
Cash Payments to Employees for Services	(197,152)	0	(197,152)
Cash Payments for Employee Benefits	(85,086)	0	(85,086)
Cash Payments for Claims	0	(966,615)	(966,615)
Net Cash Used for Operating Activities	(186,462)	(288,021)	(474,483)
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Grants Received	139,484	0	139,484
<u>Cash Flows from Capital Financing Activities</u>			
Payments for Capital Acquisition	(7,041)	0	(7,041)
<u>Investing Activities</u>			
Interest Income	2,103	0	2,103
Net (Decrease) in Cash and Cash Equivalents	(51,916)	(288,021)	(339,937)
Cash and Cash Equivalents at Beginning of Year	124,113	903,804	1,027,917
Cash and Cash Equivalents at End of Year	\$72,197	\$615,783	\$687,980
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</u>			
Operating (Loss)	(\$277,982)	(\$303,068)	(\$581,050)
<u>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</u>			
Depreciation	15,995	0	15,995
Donated Commodities Used During Year	72,001	0	72,001
<u>Changes in Assets and Liabilities:</u>			
Increase in Accounts Receivable	0	(4,264)	(4,264)
Increase in Materials and Supplies Inventory	(893)	0	(893)
Decrease in Accounts Payable	(473)	0	(473)
Increase in Accrued Wages and Benefits	1,080	0	1,080
Increase in Compensated Absences Payable	337	0	337
Increase in Intergovernmental Payable	3,473	0	3,473
Increase in Claims Payable	0	19,311	19,311
Total Adjustments	91,520	15,047	106,567
Net Cash Used for Operating Activities	(\$186,462)	(\$288,021)	(\$474,483)

See accompanying notes to the general purpose financial statements.

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EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

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 3313.03 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, 2001 was 1,856. The District employed 161 certificated employees and 88 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 17.

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

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

The accounts of the East Holmes Local School District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The East Holmes Local School District has the following fund types and account groups:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

Governmental Fund Types

Governmental fund types are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period, which is considered to be approximately 60 days. Generally, property taxes, although measurable, are not available soon enough after the current period to finance current period obligations, and accordingly, property taxes receivable are reflected as deferred revenue until available. Reimbursements due for federally funded programs are recognized when the corresponding expenditures are made.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, since the measurement focus of governmental funds is on decreases in financial resources. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the current available financial resources. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. Governmental funds include the following fund types:

General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest and related costs.

Capital Projects Funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities other than those financed by proprietary or trust funds.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

Proprietary Fund Types

Proprietary fund types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Allocations of costs, such as depreciation, are recognized in the proprietary funds. As permitted, the board of education has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, in its accounting and reporting practices for its proprietary operations.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

Proprietary funds include the following fund types:

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary fund types account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary fund types are as follows:

Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

Account Groups

The District maintains two account groups as described below:

General Fixed Assets Account Group is used to account for fixed assets acquired principally for general purposes other than those accounted for in proprietary or trust funds.

General Long-term Obligations Account Group is used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in proprietary funds.

B. DEPOSITS AND INVESTMENTS

For purposes of the statement of cash flows, the district considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The District pools its cash for investment and administrative purposes. This pooled cash is also considered a cash equivalent. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Investment income is recorded in the general fund, debt service fund, capital improvement fund and enterprise fund as permitted by the Ohio Revised code. Investments are stated at cost, which approximates market value at year-end.

Following Ohio statutes, the Board of Education has, by resolution, specified the general fund to receive allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$201,507, which includes \$54,069 assigned from other District funds.

C. RECEIVABLES

Receivables are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Accounts receivable at June 30, 2002, consisted of a federal subsidy receivable in the enterprise fund, intergovernmental grants receivable in the special revenue funds and a claim repayment receivable in the internal service fund.

D. 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 could differ from those estimates.

E. INTERFUND ASSETS/LIABILITIES

Receivables and payables resulting from transactions between funds for services provided

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

or goods received are classified as “due from other funds” or “due to other funds” on the balance sheet. Short-term interfund loans are classified as “interfund receivables” and “interfund payables.” Long-term interfund loans are classified as “advances to/from other funds” and are equally offset by a fund balance reserve account, which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

F. INVENTORIES AND SUPPLIES

The costs of inventory items are recognized as expenditures when purchased in the governmental funds and recognized as expenses when used in the enterprise funds. For all funds, cost is determined on a first-in, first-out basis.

Reported inventories in the governmental fund types are equally offset by a fund balance reserve, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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 expenditures/expense is reported in the year in which services are consumed.

H. FIXED ASSETS AND DEPRECIATION

Fixed assets used in governmental fund types of the District are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on the general fixed assets. The District does not possess any infrastructure.

Fixed assets, which are used in proprietary fund type activities, are capitalized in the respective funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at estimated fair market value when received, based on historical information available. Depreciation is computed using the straight-line method based on the estimated useful lives equipment. The capitalization threshold is \$500.

I. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Bonds, capital leases and long-term loans are reported as liability of the general long-term obligations account group until due.

J. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

K. COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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.

The entire estimated amount of unpaid compensated absences, including sick pay and vacation pay, of proprietary type funds is reflected as a liability in the respective funds. The current portion of unpaid compensated absences for sick leave related to governmental fund type operations is reflected in the respective funds. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

L. FUND BALANCE RESERVES

The District records reservations for portions of fund equity, which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, inventories of supplies and materials and prepaid expenses. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

M. INTERGOVERNMENTAL REVENUES

For governmental funds, intergovernmental revenues, such as entitlements and grants

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The District currently participates in several state and federal programs, categorized as follows:

Entitlements

General Fund:

- State Foundation Program
- State Property Tax Relief
- School Bus Purchase Allowance

Non-Reimbursable Grants

Special Revenue Funds:

- Auxiliary Services
- Teacher Development Block Grants
- Education Management Information Systems
- SchoolNet Professional Development
- ONenet
- Ohio Reads Grant
- School Reading Improvement
- Safe Schools Grant
- Proficiency Incentive Awards
- Eisenhower Grant
- Title I
- Title II
- Title VI
- Title VI-B
- Title VI-R, Class Size Reduction
- Drug-Free Schools

Capital Projects Funds:

- SchoolNet
- Interactive Video Distance Learning Grant

Reimbursable Grants

Enterprise Fund:

- National School Lunch Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 44% of the District's operating revenue during the 2002 fiscal year.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

N. TOTAL COLUMNS

Total columns on the general purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles (GAAP). Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are required to be budgeted and appropriated. The primary level of budgetary control is at the fund level within each fund. Budgetary modifications may only be made by resolution of the Board of Education.

B. BUDGETARY BASIS

Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the ensuing July 1 to June 30 fiscal year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenues. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the Certificate of Estimated Resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates Budget receipts, as shown in the accompanying "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) -All Governmental Fund

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

Types and Expendable Trust Fund” do not include July 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual Appropriation Resolution must be passed by October 1 of each year for the period July 1 to June 30. The Appropriation Resolution fixes spending authority at the fund level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources as certified.

The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the Board of Education. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in the accompanying “Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) -All Governmental Fund Types and Expendable Trust Fund” represents the final appropriation amounts including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the Non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end for governmental funds are reported as reservations of fund balance for subsequent year expenditures.

Budgetary Reporting

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 “Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) -All Governmental Fund Types and Expendable Trust 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:

- 1) Revenues are recorded when received (budget basis) rather than when

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

susceptible to accrual (GAAP basis).

- 2) Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).
- 3) Encumbrances are treated as expenditure/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).
- 4) Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- 5) The District repays debt from the debt service fund (budget non-GAAP basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow:

Excess of Revenues and Other Financing Sources Over (Under)
Expenditures and Other Financing Uses Governmental Fund Type
Reconciliation of Budget Basis to GAAP Basis (All Governmental Fund Types)

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Expendable Trust Fund</u>
GAAP Basis	\$862,054	\$(54,291)	\$34,097	\$(1,689,798)	\$ 0
Net Adjustments:					
Revenue Accruals	(3,747)	179,802	5,853	24,422	0
Expenditure Accruals	(67,139)	31,811	300,000	46,907	0
Principal Retirement	0	0	(300,000)	(27,000)	0
Encumbrances	<u>(236,253)</u>	<u>(34,254)</u>	<u>0</u>	<u>(98,838)</u>	<u>0</u>
Budget Basis	<u>\$554,915</u>	<u>\$123,068</u>	<u>\$39,950</u>	<u>\$(1,744,307)</u>	<u>\$ 0</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

Net Income/Excess of Revenues over Expenses
Reconciliation of Budget Basis to GAAP Basis
All Proprietary Fund Types

	<u>Enterprise</u>	<u>Internal Service</u>
GAAP Basis	\$(37,949)	\$(303,068)
Net Adjustment for Revenue Accruals	(89,684)	(4,264)
Net Adjustment for Expense Accruals	59,723	19,311
Depreciation Expense	15,995	0
Encumbrances	<u>(9,328)</u>	<u>0</u>
Budget Basis	<u>(\$61,243)</u>	<u>\$ (288,021)</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 combined balance sheet as "Equity in pooled cash and cash equivalents." The amount held at fiscal year end for the Employee Benefit Self Insurance Fund was \$615,783. 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 two 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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

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 two years from the date of purchase:

- 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).

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

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

to the District or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

B. DEPOSITS

At year-end, the carrying amount of the East Holmes Local School District deposits was \$3,673,876 and the bank balance was \$6,134,159. Of the bank balance:

1. \$205,200 was covered by federal depository insurance; and
2. \$5,928,959 was uninsured and uncollateralized. Although statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the School District held deposits to a successful claim by the FDIC.

C. INVESTMENTS

Investments are categorized to give an indication of the level of custodial credit risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the District's name. Investments in STAR Ohio and Deferred Compensation are not categorized since they are not evidenced by securities that exist in physical or book entry form.

Statutory provisions require that all securities acquired by the District be held by the District treasurer or deposited with a qualified trustee. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterpart is a designated depository of the District for the current period of designation of depositories, in which case the securities may be held in trust by the depository. As of June 30, the District's investments consisted of the State Treasurer's investment pool. The carrying value of these investments was \$2,117,753 and the market value was \$2,117,753.

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 "Reporting Cash Flows of Proprietary and Governmental Entities that use Proprietary Fund Accounting". A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,791,629	\$ 0
Investments which are part of cash management pool:		
STAR Ohio	<u>(2,117,753)</u>	<u>2,117,753</u>
GASB Statement No. 3	<u>\$ 3,673,876</u>	<u>\$ 2,117,753</u>

NOTE 5 FIXED ASSETS AND ACCUMULATED DEPRECIATION

1. *GENERAL FIXED ASSETS ACCOUNT GROUP*

The general fixed assets account group has been restated as of July 1, 2001 due to errors and omissions. Prior to reappraisal, building upgrades were not included in fixed assets.

	<u>Balance July 1, 2001</u>	<u>Correction</u>	<u>Restated Balance July 1, 2001</u>
Land, Buildings and Improvements	\$8,306,237	\$2,761,289	\$11,067,526
Furniture, Fixtures and Equipment	2,504,029	(560,654)	1,943,375
Vehicles	1,256,079	10,011	1,266,090
Construction in Progress	<u>3,001,022</u>	<u>0</u>	<u>3,001,022</u>
Total	<u>\$15,067,367</u>	<u>\$2,210,646</u>	<u>\$17,278,013</u>

The changes in general fixed assets during the year consisted of:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Land, Buildings and Improvements	\$11,067,526	\$4,340,040	\$ 0	\$15,407,566
Furniture, Fixtures and Equipment	1,943,375	310,079	121,730	2,131,724
Vehicles	1,266,090	113,664	77,400	1,302,354
Construction in Progress	<u>3,001,022</u>	<u>0</u>	<u>3,001,022</u>	<u>0</u>
Totals	<u>\$17,278,013</u>	<u>\$4,763,783</u>	<u>\$3,200,152</u>	<u>\$18,841,644</u>

2. *PROPRIETARY FUND TYPE FIXED ASSETS*

Proprietary fund type fixed assets and accumulated depreciation at year-end consisted of:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

	Balance June 30, 2002
<u>Enterprise</u>	
Equipment	\$ 296,762
Less: accumulated depreciation	<u>(196,516)</u>
Net fixed assets	<u>\$ 100,246</u>

NOTE 6 DEFERRED REVENUE

Deferred revenue at year-end consisted of:

Property taxes receivable	\$ 7,380,524
Federal commodities, unused	15,525
Intergovernmental Receivable	<u>0</u>
Total Deferred Revenue	<u>\$ 7,396,049</u>

NOTE 7 GENERAL LONG-TERM OBLIGATIONS

	<u>Outstanding July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2002</u>
Compensated Absences Payable	\$681,720	\$682,981	\$681,720	\$682,981
Intergovernmental Payable	68,506	62,342	68,506	62,342
Notes Payable	120,000	0	30,000	90,000
Bonds Payable (6.65% - 7.70%)	<u>4,411,000</u>	<u>0</u>	<u>300,000</u>	<u>4,111,000</u>
	<u>\$5,281,226</u>	<u>\$745,323</u>	<u>\$1,080,226</u>	<u>\$4,946,323</u>

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2002, including interest payments of \$2,069,214, are as follows:

Year Ending June 30,	2003	\$543,848
	2004	518,896
	2005	504,900
	2006	460,624
	2007	446,168
	Thereafter	<u>3,795,778</u>
	Total	<u>\$6,270,214</u>

NOTE 8 PROPERTY TAXES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

Real property taxes collected in 2001 were based on assessed value equal to 35 percent of appraisal value. The Holmes and Wayne County Auditors reappraise real property every six years with a triennial update, which last update was completed for the tax year 2001 for Holmes County and 1999 for Wayne County. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Holmes and Wayne Counties, real property taxes are billed semi-annually, one year in arrears. The full tax rate applied to real property tax (calendar) year 2001 was \$27.55 for Holmes and Wayne per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$24.665 for Holmes and Wayne Counties per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$24.902 for Holmes and Wayne Counties per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible property for the tax (calendar) year 2001 was \$27.55 for Holmes and Wayne Counties per \$1,000 of assessed valuation.

The property valuation consisted of:

	<u>Holmes</u>	<u>Wayne</u>
Real Property		
Residential/Agricultural	\$205,484,240	\$703,190
Commercial/Industrial/Mineral	42,427,560	0
Public Utilities	1,970	0
Tangible Personal Property		
General	61,549,130	19,180
Public Utilities	<u>6,157,090</u>	<u>144,620</u>
Total Valuation	<u>\$315,619,990</u>	<u>\$866,990</u>

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2002. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amounts available to the District as an advance at June 30, 2002, were \$207,058 from Holmes County and \$1,410 from Wayne County.

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 Indiana Insurance. The deductible is \$1,000 per incident on property and \$500 per incident on equipment. All vehicles are insured by Nationwide

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

Insurance and have a \$250 deductible. All board members, administrators and employees are covered under a school district liability policy with Nationwide/Wausau Insurance. 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 \$25,000.

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

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

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 expenditure 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 \$40,000 per individual and \$668,808 in the aggregate, per year.

The claims liability of \$88,298 reported in the fund at June 30, 2002, 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, 2002	\$ 68,987	\$985,926	\$966,615	\$ 88,298
June 30, 2001	\$ 70,244	\$647,450	\$648,707	\$ 68,987

NOTE 10 DEFINED BENEFIT PENSION PLANS

1. *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 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, Columbus, Ohio 43215-3746.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

Plan members are required to contribute 9 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. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$96,351, \$74,647 and \$94,666, respectively; 54.7 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$43,622, representing the unpaid portion for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

2. *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 basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salary and the District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For the fiscal year 2001, the portion used to fund pension obligations was also 9.5 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. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$603,573, \$574,609 and \$340,344, respectively; 83.5 percent has been contributed for fiscal year 2002, and 100 percent for the fiscal year 2001 and 2000. \$99,468, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

NOTE 11 POSTEMPLOYMENT BENEFITS

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements For the Year Ended June 30, 2002

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$285,903 during fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$330,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability recipients and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contributions is allocated to providing health care benefits. For this fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the District, the amount to fund healthcare benefits, including surcharge, equaled \$161,689 during the 2002 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 SEGMENT INFORMATION

The District maintains enterprise funds to account for the operations of school food service and uniform school supplies. Segment information related to these follows:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

	<u>Food Services</u>	<u>Uniform Supplies</u>	<u>Total Enterprise</u>
Operating Revenues	\$304,237	\$ 6,150	\$310,387
Operating Expenses			
Salaries	198,569	0	198,569
Fringe Benefits	79,797	0	79,797
Purchased Services	25,265	0	25,265
Cost of Sales	258,183	7,726	265,909
Depreciation	15,995	0	15,995
Other operating expenses	<u>2,834</u>	<u>0</u>	<u>2,834</u>
Total Operating Expenses	<u>580,643</u>	<u>7,726</u>	<u>588,369</u>
Operating Loss	(276,406)	(1,576)	(277,982)
Non-operating Revenues	<u>231,272</u>	<u>0</u>	<u>231,272</u>
Net Loss	<u>\$(45,134)</u>	<u>\$(1,576)</u>	<u>\$(46,710)</u>
Net Working Capital	<u>\$13,262</u>	<u>\$13,974</u>	<u>\$27,236</u>
Fixed Assets, net	<u>\$100,246</u>	<u>\$ 0</u>	<u>\$100,246</u>
Total Assets	<u>\$193,290</u>	<u>\$15,408</u>	<u>\$208,698</u>
Total Equity	<u>\$97,983</u>	<u>\$13,975</u>	<u>\$111,958</u>

NOTE 13 NON-CASH TRANSACTIONS

The District receives food commodities for its food service obligations. The revenue recognized in grant income from the non-cash commodities was \$72,001.

NOTE 14 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, 2002.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

NOTE 15 **SCHOOL FUNDING ISSUE**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distributions is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be retroactive to July 1, 2001. In November, 2001, the court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

NOTE 16 **STATUTORY RESERVES**

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

During fiscal year 2002, the state legislature determined that the budget reserve set-aside was no longer a requirement for school districts. In accordance with guidelines set forth, the funds in this set-aside were transferred to the general fund portion of the Hiland Addition and Renovation project.

During the fiscal year ended June 30, 2002, the reserve activity (GAAP basis) was as follows:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

	<u>Textbook Reserve</u>	<u>Maintenance Reserve</u>	<u>Total</u>
Balance, July 1, 2001	\$ (8,706)	\$ 0	\$(8,706)
Required Set-Aside	228,095	228,095	456,190
Offset	0	(204,882)	(204,882)
Qualifying Expenditures	<u>(255,970)</u>	<u>(671,458)</u>	<u>(927,428)</u>
Balance, June 30, 2002	<u>\$ (36,581)</u>	<u>\$(648,245)</u>	<u>\$(684,826)</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year. The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years.

NOTE 17 JOINTLY GOVERNED ORGANIZATIONS

A. TRI-COUNTY COMPUTER SERVICE ASSOCIATION (TCCSA)

TCCSA is a jointly governed organization comprised of 22 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.

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.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the General Purpose Financial Statements
For the Year Ended June 30, 2002

NOTE 18 RESTATEMENT OF PRIOR FISCAL YEAR BALANCES

For fiscal year 2002, the fund structure was re-evaluated. Accordingly, the school buildings staff and flower funds were reclassified from Expendable Trust Fund Type to the Special Revenue Fund Type. The effect of these changes on the excess of revenues and other financing sources over (under) expenditures and other financing uses as previously reported for the fiscal year ended June 30, 2001, is as follows:

	<u>Special Revenue</u>	<u>Expendable Trust</u>
Excess as Previously Reported	\$57,961	\$ (448)
Fund Restructure	<u>9,702</u>	<u>(9,702)</u>
Restated Amounts at June 30, 2001	<u>\$67,663</u>	<u>\$(10,150)</u>

These changes also had the following effect on fund balance as it was previously reported as of June 30, 2001.

	<u>Special Revenue</u>	<u>Expendable Trust</u>
Fund Balance at June 30, 2001	\$409,047	\$ 9,751
Fund Restructure	<u>9,702</u>	<u>(9,702)</u>
Restated Fund Balance at July 1, 2001	<u>\$418,749</u>	<u>\$ 49</u>

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**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	PASS THROUGH ENTITY NUMBER	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>						
(Passed Through Ohio Department of Education)						
Title I Grants to Local Educational Agencies	C1-S1-01 C1-S1-01C C1-S1-02	84.010	\$250,000		\$218,975 137,920 666,948	
Total Title I Grants to Local Educational Agencies			1,232,242		1,023,843	
Special Education - Grants to States	6B-SF-2001 6B-SF-2002	84.027	3,559 114,762		16,769 99,526	
Total Special Education - Grants to States			118,321		116,295	
Class Size Reduction	C2-S1-2002	84.298	9,486		6,394	
Innovative Education Program Strategies	C2-S1-01 C2-S1-02	84.340	0 152,839		11,899 129,285	
Total Innovative Education Program Strategies			152,839		141,184	
Eisenhower Professional Development Federal Activities	MS-S1-2001P MS-S1-2002	84.281	0 22,218		9,336 22,218	
Total Eisenhower Professional Development Federal Activities			22,218		31,554	
Safe and Drug Free Schools and Communities State Grant	DR-S1-2001 DR-S1-2002	84.186	0 7,199		7,466 7,199	
Total Safe and Drug Free Schools and Communities State Grant			7,199		14,665	
Total U.S. Department of Education			1,542,305		1,333,935	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
(Pass Through Ohio Department of Education)						
Child Nutrition Cluster:						
Food Distribution	N/A	10.550		\$74,207		\$72,001
National School Lunch Program	N/A	10.555	134,089		134,089	
Total U.S. Department of Agriculture - Child Nutrition Cluster			134,089	74,207	134,089	72,001
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
(Pass Through the Ohio Department of Mental Retardation and Developmental Disabilities)						
Medical Assistance Program	N/A	93.778	2,830		2,830	
Total			<u>\$1,679,224</u>	<u>\$74,207</u>	<u>\$1,470,854</u>	<u>\$72,001</u>

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

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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Facsimile 330-471-0001
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

East Holmes Local School District
Holmes County
P.O. Box 182, CR 77
Berlin, Ohio 44610

To the Board of Education:

We have audited the general purpose financial statements of East Holmes Local School District, Holmes County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002, which noted the corrections of errors and omissions in the General Fixed Assets Account Group. In addition, our report noted the School Buildings Staff and Flower Funds were reclassified from the Expendable Trust Fund Type to the Special Revenue Fund Type. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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 that are required to be reported under *Government Auditing Standards*.

However, we noted other immaterial matters of noncompliance that we have reported to management of the District in a separate letter dated October 31, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over the financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 31, 2002.

East Holmes Local District
Holmes County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 31, 2002



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

East Holmes Local School District
Holmes County
P.O. Box 182, CR 77
Berlin, Ohio 44610

To the Board of Education:

Compliance

We have audited the compliance of East Holmes Local School District, Holmes County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

However, we noted a certain matter of noncompliance that we have reported to management of the District in a separate letter dated October 31, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintained 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.

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

However, we noted a certain matter involving the internal control over compliance that we have reported to management of the District in a separate letter dated October 31, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 31, 2002

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid: <i>Explain:</i>
2001-10938-001	Ohio Revised Code 5705.41(B), expenditures exceeded appropriations	No	Partially Corrected - See comment in Management Letter



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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
DECEMBER 10, 2002**