



Mary Taylor, CPA
Auditor of State

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

December 1, 2008

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

The discussion and analysis of East Holmes Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key Financial Highlights for 2008 are as follows:

- In total, net assets decreased by \$958,043
- Revenues for governmental activities totaled \$17,856,854 in 2008. Of this total, 79 percent consisted of General revenues while Program revenues accounted for the balance of 21 percent.
- Program expenses totaled \$18,814,897. Instructional expenses made up 57.5 percent of this total while support services accounted for 35.2 percent. Other expenses rounded out the remaining 7.3 percent.
- Outstanding general obligation bonded debt decreased from \$2,650,000 to \$2,305,000 in 2008.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question, "How did we do financially during 2008?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most

East Holmes Local School District
Management's Discussion and Analysis
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private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007:

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table I
Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and Other Assets	\$15,975,700	\$16,821,225
Capital Assets, Net	12,157,009	12,283,908
Total Assets	28,132,709	29,105,133
Liabilities		
Current and Other Liabilities	10,205,004	10,019,718
Long-Term Liabilities:		
Due Within One Year	236,264	432,486
Due in More than One Year	3,302,812	3,306,257
Total Liabilities	13,744,080	13,758,461
Net Assets		
Invested in Capital Assets, Net of Debt	9,852,727	9,633,411
Restricted:		
Debt Service	129,227	267,277
Capital Outlay	388,225	326,005
Other Purpose	105,912	209,831
Unrestricted	3,912,538	4,910,148
Total Net Assets	\$14,388,629	\$15,346,672

Total assets decreased by \$972,424. This decrease is primarily due to a decrease in Taxes Receivable with smaller decreases in Cash and Cash Equivalents and Capital Assets.

Total liabilities decreased by \$14,381. The most notable areas of decrease were Deferred Revenue and Due Within One Year.

By comparing assets and liabilities, one can see the overall position of net assets has decreased by \$958,043. The majority of this decrease is due to lower Taxes Receivable at June 30, 2008, due to the loss of Tangible Personal Property Taxes. Lower tax collections also caused a decrease in Cash and Cash Equivalents. There is also a decrease in Net Capital Assets.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$14,066,976 or 79 percent of the total revenue. The most significant portion of the general revenue is local property tax. The remaining amount of revenue received was in the form of program revenues, which equated to \$3,789,878 or only 21 percent of total revenue.

East Holmes Local School District
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for fiscal year 2008 as compared to fiscal year 2007.

Table 2
 Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues		
Program Revenues:		
Charges for Services	\$1,337,944	\$1,274,207
Operating Grants and Contributions	2,451,934	2,303,737
<i>Total Program Revenues</i>	3,789,878	3,577,944
General Revenues:		
Property Taxes	7,537,281	8,816,951
Grants and Entitlements	6,055,823	5,782,043
Investments	371,619	430,879
Miscellaneous	102,253	112,764
<i>Total General Revenues</i>	14,066,976	15,142,637
Total Revenues	17,856,854	18,720,581
Program Expenses		
Instruction:		
Regular	8,373,772	7,819,097
Special	1,944,766	1,977,506
Vocational	507,791	502,270
Support Services:		
Pupil	844,259	796,474
Instructional Staff	833,678	951,624
Board of Education	31,348	30,647
Administration	1,650,676	1,579,609
Fiscal	439,660	410,019
Operation and Maintenance	1,438,880	1,402,281
Pupil Transportation	1,251,593	1,104,788
Central	129,317	127,229
Operating of Non-Instructional Services	756,969	715,970
Extracurricular Activities	493,495	388,094
Interest and Fiscal Charges	118,693	122,100
Total Program Expenses	18,814,897	17,927,708
Increase (Decrease) in Net Assets	(\$958,043)	\$792,873

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District has several continuing levies for a total of 18 mills, which currently generate an estimated \$6,320,000 in revenues. The School District also collects \$550,000 from a five year emergency levy that was last renewed in 2004, and will be put before the voters for renewal in 2009.

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

As one can see, approximately 57.5 percent of the School District's expense is used to fund instructional expenses. Additional supporting services for pupils, staff and business operations encompass an additional 35.2 percent. The remaining amount of program expenses, roughly 7.3 percent, is to facilitate other obligations of the School District such as interest and fiscal charges, the food service program and numerous extracurricular activities.

Actual expenses were consistent with expectations but the School District experienced a decrease in net assets in 2008 of \$958,043. This decrease was primarily due to revenues exceeding expenses, which was caused by a decrease in Property Taxes.

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

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 3
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Instruction				
Regular	\$ 8,373,772	\$7,529,541	\$ 7,819,097	\$7,013,868
Special	1,944,766	691,075	1,977,506	807,467
Vocational	507,791	507,791	502,270	502,270
Support Services:				
Pupil	844,259	482,305	796,474	524,859
Instructional Staff	833,678	558,952	951,624	626,414
Board of Education	31,348	31,348	30,647	30,647
Administration	1,650,676	1,529,941	1,579,609	1,473,370
Fiscal	439,660	439,660	410,019	410,019
Operation and Maintenance	1,438,880	1,427,465	1,402,281	1,392,886
Pupil Transportation	1,251,593	1,227,136	1,104,788	1,086,663
Central	129,317	89,236	127,229	103,686
Food Service Operations	756,969	78,252	715,970	29,573
Extracurricular Activities	493,495	313,624	388,094	225,942
Interest and Fiscal Charges	118,693	118,693	122,100	122,100
Total	<u>\$18,814,897</u>	<u>\$15,025,019</u>	<u>\$17,927,708</u>	<u>\$14,349,764</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Nearly 40.0 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 32.2 percent, while investment and other miscellaneous type revenues support the remaining activity costs. Program revenues only account for 20.1 percent of all governmental expenses.

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

School District's Funds

Information regarding the School District's major fund can be found on page 16. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,836,564 and expenditures of \$18,580,627. The General Fund balance decreased \$832,215, due to a significant decrease in Property and Other Local Taxes.

General Fund Budgeting Highlights

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

East Holmes Local School District
Management's Discussion and Analysis
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During the course of fiscal 2008, the School District amended its general fund budget numerous times, none significant. The School District uses a site-based style of budgeting and has in place systems that are designed to tightly control disbursements but provide flexibility for site based decision and management.

For the general fund, the final budget basis revenue estimate totaled \$14,758,500; this was above original revenue estimates of \$14,738,500. The main differences between the original and final estimates were due to an under estimation of tuition and fees income. The budget basis expenditures estimate totaled \$15,309,948; this was below the original budget estimates of \$15,559,948. This majority of this difference can be attributed to a decrease in the estimate of expenditures for pupil transportation and capital outlay.

The School District's unencumbered ending cash balance totaled \$5,732,330, which was above the original budgeted amount, due mainly to lower actual expenditures than budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the School District had \$12,157,009 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles, net of accumulated depreciation. Table 4 shows fiscal 2008 values compared to 2007.

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

	Governmental Activities	
	2008	2007
Land	\$1,067,816	\$1,067,816
Construction in Progress	353,684	0
Land Improvements	1,283,121	1,204,893
Buildings and Improvements	15,627,890	15,605,347
Furniture and Equipment	1,664,457	1,580,255
Vehicles	1,487,592	1,487,592
Accumulated Depreciation	(9,327,551)	(8,661,995)
Totals	\$12,157,009	\$12,283,908

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

Debt

At June 30, 2008 the School District had \$2,305,000 in bonds outstanding. Table 5 below summarizes the School District's bonds outstanding.

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 5
 Outstanding Debt at June 30

	Governmental Activities	
	2008	2007
1999 Refunding Bonds	0	165,000
2001 Hiland Renovation Bonds	420,000	545,000
2007 Refunding Bonds	1,885,000	1,940,000
Totals	\$2,305,000	\$2,650,000

The 1999 refunding bonds were issued to pay off earlier bonds that had been issued for upgrades and additions at the School District's elementary buildings. These bonds were paid off in fiscal year 2008.

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

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

The School District's overall legal debt margin was \$34,342,470 with an unvoted debt margin of \$381,583. For more information on debt refer to Note 7 of the basic financial statements.

School District Outlook

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

The financial future of the School District is not without its challenges, though. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local real property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system.

Although the School District relies heavily on its real property taxpayers to support its operations, the community support for the schools is quite strong. As mentioned earlier, the East Holmes voters had renewed a \$550,000 emergency levy in March, 2004, which will help fund the general operations of the School District through the first half of fiscal year 2010. The School District is expecting to have a positive general fund cash balance through the end of the 2012 fiscal year. Additional revenue and/or reductions in expenditures will be necessary to maintain a positive general fund balance after the end of the 2012 fiscal year. The School District has communicated to the community they rely upon their support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the

East Holmes Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward school districts with little property tax wealth. In May of 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In December, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding system. The decision reaffirmed earlier decisions that Ohio's current school funding system is unconstitutional. However, the Supreme Court also relinquished jurisdiction over the case and directed the "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

East Holmes Local School District has not anticipated any meaningful growth in State revenue due to the constraints set by the State for estimating state funding. The State has stated that the per pupil revenue for a minimum education should be increased at an inflationary rate of 3.0 percent per year for future years. The affect of a 2007 property reappraisal will have a negative impact on the State's share of per pupil funding. With 40.0 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint would have on the School District and ultimately, the residential taxpayers.

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

Contacting the School District's Financial Management

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

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East Holmes Local School District
Statement of Net Assets
June 30, 2008

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 6,933,464
Cash and Cash Equivalents in Segregated Accounts	432,148
Inventory Held for Resale	20,388
Materials and Supplies Inventory	101,014
Accrued Interest Receivable	10,603
Intergovernmental Receivable	318,706
Prepaid Items	12,648
Taxes Receivable	8,087,742
Deferred Charges	58,987
Non-Depreciable Capital Assets	1,421,500
Depreciable Capital Assets, net	10,735,509
<i>Total Assets</i>	\$ 28,132,709
LIABILITIES:	
Accounts Payable	\$ 143,734
Accrued Wages and Benefits	1,419,773
Intergovernmental Payable	435,813
Accrued Interest Payable	17,255
Accrued Vacation Leave Payable	18,713
Matured Compensated Absences Payable	135,789
Deferred Revenue	7,916,878
Claims Payable	117,049
Due Within One Year	236,264
Due in More Than One Year	3,302,812
<i>Total Liabilities</i>	13,744,080
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	9,852,727
Restricted for Debt Service	129,227
Restricted for Capital Outlay	388,225
Restricted for Other Purposes	105,912
Unrestricted	3,912,538
<i>Total Net Assets</i>	\$ 14,388,629

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction:			
Regular	\$ 8,373,772	\$ 476,825	\$ 367,406
Special	1,944,766	128,163	1,125,528
Vocational	507,791	0	0
Support Services:			
Pupils	844,259	173,239	188,715
Instructional Staff	833,678	311	274,415
Board of Education	31,348	0	0
Administration	1,650,676	0	120,735
Fiscal	439,660	0	0
Operation and Maintenance of Plant	1,438,880	11,415	0
Pupil Transportation	1,251,593	0	24,457
Central	129,317	8,746	31,335
Operation of Non-Instructional Services:			
Food Service Operations	756,969	384,882	293,835
Extracurricular Activities	493,495	154,363	25,508
Interest and Fiscal Charges	118,693	0	0
Total Governmental Activities	\$ 18,814,897	\$ 1,337,944	\$ 2,451,934

General Revenues:

Property Taxes Levied:

General Purposes

Debt Service

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

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

\$	(7,529,541)
	(691,075)
	(507,791)
	(482,305)
	(558,952)
	(31,348)
	(1,529,941)
	(439,660)
	(1,427,465)
	(1,227,136)
	(89,236)
	(78,252)
	(313,624)
	(118,693)
\$	(15,025,019)

	6,996,646
	273,903
	266,732
	6,055,823
	371,619
	102,253
	14,066,976
	(958,043)
	15,346,672
\$	14,388,629

East Holmes Local School District
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Other Governmental Funds
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 6,018,493	\$ 914,971
Inventory Held for Resale	0	20,388
Materials and Supplies Inventory	100,446	568
Accrued Interest Receivable	10,603	0
Intergovernmental Receivable	13,706	305,000
Prepaid Items	12,648	0
Taxes Receivable	7,515,783	571,959
<i>Total Assets</i>	\$ 13,671,679	\$ 1,812,886
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 96,666	\$ 47,068
Accrued Wages and Benefits	1,170,046	249,727
Intergovernmental Payable	350,687	85,126
Matured Compensated Absences Payable	94,552	41,237
Deferred Revenue	7,394,741	562,747
<i>Total Liabilities</i>	9,106,692	985,905
FUND BALANCES:		
Reserved:		
Reserved for Encumbrances	198,959	49,892
Reserved for Property Taxes	121,042	9,212
Unreserved, Undesignated, Reported in:		
General Fund	4,244,986	0
Special Revenue Funds	0	232,689
Debt Service Funds	0	204,202
Capital Projects Funds	0	330,986
<i>Total Fund Balances</i>	4,564,987	826,981
<i>Total Liabilities and Fund Balances</i>	\$ 13,671,679	\$ 1,812,886

See accompanying notes to the basic financial statements

East Holmes Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

<hr/> <hr/>	Total Governmental Fund Balances	\$ 5,391,968
	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,157,009
\$ 6,933,464	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to property taxes.	40,610
20,388		
101,014	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	58,987
10,603		
318,706	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(17,255)
12,648		
<u>8,087,742</u>	Accretion on Capital Appreciation Bonds	(20,377)
<u>\$ 15,484,565</u>	Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	
	Vacation Benefits Payable	(18,713)
	Long-term liabilities, including bonds payable, long term notes, and compensating absences, are not due and payable in the current period and therefore are not reported in the funds:	
\$ 143,734	Bond Premium	(225,373)
1,419,773	Refunding Loss	166,385
435,813	Compensated Absences Payable	(1,126,711)
135,789	General Obligation Bonds & Notes Payable	<u>(2,333,000)</u>
<u>7,957,488</u>	Total	(3,518,699)
<u>10,092,597</u>	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>315,099</u>
248,851		
130,254		
4,244,986		
232,689		
204,202		
<u>330,986</u>		
<u>5,391,968</u>		
<u>\$ 15,484,565</u>	Net Assets of Governmental Activities	<u><u>\$14,388,629</u></u>

East Holmes Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	<u>General Fund</u>	<u>Other Governmental Funds</u>
REVENUES:		
Property and Other Local Taxes	\$ 6,977,979	\$ 539,012
Intergovernmental	5,942,581	2,516,553
Interest	369,113	2,506
Tuition and Fees	600,331	11,256
Rent	11,415	0
Extracurricular Activities	0	330,060
Gifts and Donations	24,636	23,987
Customer Sales and Services	0	384,882
Miscellaneous	66,626	35,627
<i>Total Revenues</i>	<u>13,992,681</u>	<u>3,843,883</u>
EXPENDITURES:		
Current:		
Instruction:		
Regular	7,577,638	373,670
Special	732,068	1,141,676
Vocational	484,225	0
Support Services:		
Pupils	441,021	390,858
Instructional Staff	496,898	303,383
Board of Education	31,348	0
Administration	1,457,345	119,447
Fiscal	438,115	14,853
Operation and Maintenance of Plant	1,348,871	6,061
Pupil Transportation	1,080,265	23,641
Central	110,286	19,031
Operation of Non-Instructional Services:		
Food Service Operations	0	706,406
Extracurricular Activities	163,776	199,809
Capital Outlay	214,358	257,925
Debt Service:		
Principal	0	345,000
Interest	0	102,653
<i>Total Expenditures</i>	<u>14,576,214</u>	<u>4,004,413</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(583,533)</u>	<u>(160,530)</u>
OTHER FINANCING SOURCES AND USES		
Proceeds from Sale of Capital Assets	1,318	0
Transfers Out	(250,000)	0
<i>Total Other Financing Sources</i>	<u>(248,682)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(832,215)	(160,530)
<i>Fund Balance at Beginning of Year</i>	5,397,202	987,511
<i>Fund Balance at End of Year</i>	<u>\$ 4,564,987</u>	<u>\$ 826,981</u>

See accompanying notes to the basic financial statements.

East Holmes Local School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008

Total Governmental Funds	Net Changes in Fund Balances - Total Governmental Funds	\$ (992,745)
\$ 7,516,991	Amounts reported for governmental activities in the statement of activities are different because	
8,459,134	Governmental funds report capital outlays as expenditures.	
371,619	However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.	
611,587	Capital Outlays	572,277
11,415	Loss on Capital Assets	5,210
330,060	Depreciation	(693,966)
48,623	Total	(116,479)
384,882	Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
102,253	Taxes	20,289
<u>17,836,564</u>	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	
		58,987
	Repayment of bonds payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
		345,000
	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
		16,040
	Accretion on Capital Appreciation Bonds	
		(20,377)
	The governmental funds report the effects of premiums and refunding loss when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
	Bond Premium	(225,373)
	Refunding Loss	166,385
	Total	(58,988)
	Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
	Vacation Payable	18,713
	Compensated Absences	(179,272)
	Total	(160,559)
	The internal service funds used by management to charge the costs of health insurance is included in the statement of activities and not on the governmental fund expenditures. This is the amount that expenses exceeded revenues during the year.	
		(49,211)
(992,745)	Change in Net Assets of Governmental Activities	
6,384,713		\$ (958,043)
<u>\$ 5,391,968</u>		

East Holmes Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General
For the Fiscal Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Property and Other Local Taxes	\$ 7,525,000	\$ 7,597,500	\$ 7,593,836	\$ (3,664)
Intergovernmental	6,068,500	5,976,000	5,941,285	(34,715)
Interest	450,000	387,500	372,015	(15,485)
Tuition and Fees	565,000	621,500	600,331	(21,169)
Rent	17,500	17,500	12,190	(5,310)
Gifts and Donations	0	26,000	24,636	(1,364)
Miscellaneous	112,500	132,500	66,626	(65,874)
Total Revenues	<u>14,738,500</u>	<u>14,758,500</u>	<u>14,610,919</u>	<u>(147,581)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,810,375	7,796,975	7,510,498	286,477
Special	826,390	809,390	775,039	34,351
Vocational	517,340	512,340	493,638	18,702
Support Services:				
Pupils	505,846	470,346	434,303	36,043
Instructional Staff	583,680	580,680	534,828	45,852
Board of Education	30,600	35,000	31,453	3,547
Administration	1,513,985	1,489,485	1,458,316	31,169
Fiscal	444,931	483,931	438,213	45,718
Operation and Maintenance of Plant	1,490,562	1,490,562	1,442,751	47,811
Pupil Transportation	1,208,319	1,098,319	1,093,001	5,318
Central	118,719	118,719	111,482	7,237
Extracurricular Activities	153,519	168,519	162,782	5,737
Capital Outlay	355,682	255,682	246,038	9,644
Total Expenditures	<u>15,559,948</u>	<u>15,309,948</u>	<u>14,732,342</u>	<u>577,606</u>
Excess of Revenues Over (Under) Expenditures	<u>(821,448)</u>	<u>(551,448)</u>	<u>(121,423)</u>	<u>430,025</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Fixed Assets	7,500	7,500	1,318	(6,182)
Transfers Out	0	(250,000)	(250,000)	0
Total Other Financing Sources and Uses	<u>7,500</u>	<u>(242,500)</u>	<u>(248,682)</u>	<u>(6,182)</u>
Net Change in Fund Balances	<u>(813,948)</u>	<u>(793,948)</u>	<u>(370,105)</u>	<u>423,843</u>
Fund Balance at Beginning of Year	5,860,305	5,860,305	5,860,305	0
Prior Year Encumbrances Appropriated	242,130	242,130	242,130	0
Fund Balance at End of Year	<u>\$ 5,288,487</u>	<u>\$ 5,308,487</u>	<u>\$ 5,732,330</u>	<u>\$ 423,843</u>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2008

	<u>Self-Insurance Fund</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 432,148
	<hr/>
<i>Total Assets</i>	<u>432,148</u>
LIABILITIES:	
Claims Payable	<u>117,049</u>
NET ASSETS:	
Unrestricted	<u><u>\$ 315,099</u></u>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2008

	Self-Insurance Fund
OPERATING REVENUES:	
Charges for Services	\$ 1,863,613
OPERATING EXPENSES:	
Purchased Services	249,731
Claims	1,913,093
<i>Total Operating Expenses</i>	<i>2,162,824</i>
<i>Loss Before Contributions and Transfers</i>	<i>(299,211)</i>
Transfers In	250,000
<i>Net Change in Net Assets</i>	<i>(49,211)</i>
<i>Net Assets at Beginning of Year</i>	364,310
<i>Net Assets at End of Year</i>	<i>\$ 315,099</i>

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2008

	Self-Insurance Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$ 1,863,613
Cash Payments for Claims	(1,899,279)
Cash Payments for Goods and Services	(249,731)
<i>Net Cash Used in Operating Activities</i>	(285,397)
Cash Flows from Noncapital Financing Activities	
Transfer In	250,000
<i>Cash and Cash Equivalents Beginning of Year</i>	467,545
<i>Cash and Cash Equivalents End of Year</i>	\$ 432,148
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$ (299,211)
Increase in Liabilities:	
Claims Payable	13,814
<i>Net Cash Used in Operating Activities</i>	\$ (285,397)

See accompanying notes to the basic financial statements

East Holmes Local School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2008

ASSETS:

Equity in Pooled Cash and Cash Equivalents	\$ 14,974
<i>Total Assets</i>	<u>\$ 14,974</u>

LIABILITIES:

Accounts Payable	\$ 139
Undistributed Monies	1,836
Due to Students	<u>12,999</u>
<i>Total Liabilities</i>	<u>\$ 14,974</u>

See accompanying notes to the basic financial statements

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

NOTE 1 NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The East Holmes Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. East Holmes Local School District is a Local District as defined by Section 3313.03 of the Ohio Revised Code. The School District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District.

Average daily membership (ADM) as of October 1, 2007 was 1,907. The School District employed 164 certificated employees and 95 non-certificated employees.

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

A. *BASIS OF PRESENTATION*

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

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

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

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

B. *FUND ACCOUNTING*

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

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

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

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

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

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

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

C. MEASUREMENT FOCUS

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2008 (Continued)

manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. BASIS OF ACCOUNTING

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

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

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2008 (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. BUDGETARY DATA

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2008.

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

F. CASH AND CASH EQUIVALENTS

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

During fiscal year 2008, investments were limited to STAROhio, the State Treasurer's Investment Pool and certificates of deposit. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008. Certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$369,113, which includes \$48,710 assigned from other District funds.

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

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

H. INVENTORY

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

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

I. RESTRICTED ASSETS

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

J. CAPITAL ASSETS

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

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

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

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

K. COMPENSATED ABSENCES

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

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "mature compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported. For 2008, the retirement benefits of \$135,789 were paid using expendable available resources.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. NET ASSETS

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

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

N. FUND BALANCE RESERVES

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

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

O. OPERATING REVENUES AND EXPENSES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

P. INTERFUND ACTIVITY

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

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary and special items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.

R. ESTIMATES

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

NOTE 3 BUDGETARY BASIS OF ACCOUNTING

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

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

Net Change in Fund Balance	
	<u>General Fund</u>
GAAP Basis	\$ (832,215)
Net Adjustments:	
Revenue Accruals	618,238
Expenditure Accruals	130,028
Encumbrances	<u>(286,156)</u>
Budget Basis	<u>\$ (370,105)</u>

NOTE 4 DEPOSITS AND INVESTMENTS

The School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the Financial Statements as "Equity in pooled cash and cash equivalents." The amount held at fiscal year end for the Employee Benefit Self Insurance Fund was \$432,148. 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 School 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 School 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 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:

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

- 1) United State Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities, subject to the repurchase agreement, must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-loan money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- 6) The State Treasurer's Investment Pool (STAR Ohio).

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

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

B. DEPOSITS

At June 30, 2008, the carrying amount of the School District's deposits was \$6,099,407. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$7,307,330 of the District's bank balance of \$7,514,736 was exposed to custodial risk as discussed below, while \$207,405 was covered by Federal Deposit Insurance Corporation.

C. INVESTMENTS

As of June 30, 2008, the School District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	\$1,281,179	\$1,281,179

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to five years or less for investments with a fixed interest rate and two years or less for investments with a variable interest rate.

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

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2008:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	\$1,281,179	100.0%

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

NOTE 5 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Governmental Activities</u>				
Capital Assets, not being Depreciated:				
Land	\$ 1,067,816	\$ 0	\$ 0	\$ 1,067,816
Construction in Progress	<u>0</u>	<u>353,684</u>	<u>0</u>	<u>353,684</u>
Total Capital Assets, not being Depreciated	1,067,816	353,684	0	1,421,500
Capital Assets, being Depreciated:				
Land Improvements	1,204,893	89,727	(11,499)	1,283,121
Buildings & Building Improvements	15,605,347	22,543	0	15,627,890
Furniture, Fixtures & Equipment	1,580,255	106,323	(22,121)	1,664,457
Vehicles	<u>1,487,592</u>	<u>0</u>	<u>0</u>	<u>1,487,592</u>
Total Capital Assets, being Depreciated	19,878,087	218,593	(33,620)	20,063,060
Less Accumulated Depreciation:				
Land Improvements	(335,741)	(59,039)	7,039	(387,741)
Buildings & Building Improvements	(6,516,709)	(425,523)	0	(6,942,232)
Furniture, Fixtures & Equipment	(1,006,545)	(86,048)	21,371	(1,071,222)
Vehicles	<u>(803,000)</u>	<u>(123,356)</u>	<u>0</u>	<u>(926,356)</u>
Total Accumulated Depreciation	(8,661,995)	(693,966)	28,410	(9,327,551)
Total Capital Assets being Depreciated, net	<u>11,216,092</u>	<u>(475,373)</u>	<u>(5,210)</u>	<u>10,735,509</u>
Governmental Activities Capital Assets, Net	<u>\$12,283,908</u>	<u>\$ (121,689)</u>	<u>\$ (5,210)</u>	<u>\$12,157,009</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 258,916
Special	31,710
Vocational	12,875
Support Services:	
Pupils	3,767
Instructional Staff	45,593
Administration	24,300
Fiscal Services	2,525
Operation and Maintenance of Plant	32,559
Pupil Transportation	116,192
Food Services	30,439
Extracurricular Activities	<u>135,090</u>
Total Depreciation Expense	<u>\$ 693,966</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

NOTE 6 RECEIVABLES

Receivables at June 30, 2008, consisted of taxes, intergovernmental receivables and accounts receivable. All receivables are considered collectible in full due to the ability for foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

The following is a summary of the intergovernmental receivables:

<u>Governmental Activities:</u>	
Transportation Agreement	\$10,943
Refunds & Insurance Premiums	2,763
Grants	<u>305,000</u>
 Total Intergovernmental Receivables	 <u>\$318,706</u>

NOTE 7 GENERAL LONG-TERM OBLIGATIONS

	<u>Outstanding</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirement/ Amortizations</u>	<u>Outstanding</u> <u>June 30, 2008</u>	<u>Amounts Due</u> <u>In One Year</u>
Compensated Absences Payable	\$979,907	\$199,068	\$(52,264)	\$1,126,711	\$ 52,264
Note Payable (0%)	42,000	0	(14,000)	28,000	14,000
1999 Refunding Bonds (5.0%-5.1%)	165,000	0	(165,000)	0	0
2000 Bonds Payable (5.0%-6.3%)	545,000	0	(125,000)	420,000	135,000
2007 Refunding Bonds (4.0%)					
General Obligation Bond	1,875,000	0	(55,000)	1,820,000	35,000
Capital Appreciation Bond	65,000	0	0	65,000	0
Accretion on Capital Appreciation	2,932	0	17,445	20,377	0
Premium	244,154	0	(18,781)	225,373	0
Accounting Loss	<u>(180,250)</u>	<u>0</u>	<u>13,865</u>	<u>(166,385)</u>	<u>0</u>
	<u>\$3,738,743</u>	<u>\$199,068</u>	<u>\$(398,735)</u>	<u>\$3,539,076</u>	<u>\$236,264</u>

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

The note will be paid from the Permanent Improvement Fund.

The bonds payable are from two separate issues. The 1999 refunding bonds were issued to pay off earlier bonds that had been issued for upgrades and additions at the School District's elementary buildings. The new bonds were paid off in fiscal year 2008.

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

In March, 2007, the School District issued \$1,940,000 of general obligation bonds to refund the 2000 school improvement general obligation bonds. The bonds were issued for a 14 year period with final maturity at December 1, 2020. These refunding bonds were issued with a premium of \$262,935 which is reported as an increase to bonds payable. The premium is being amortized to interest expense over the life of the bonds, using the straight-line method. The amortization of the premium for fiscal year 2008 was \$18,781. The issuance costs of \$68,819 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2008 was \$4,916. The refunding resulted in a difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2008 was \$13,865. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and cash flows required to service the new debt of \$205,366. The issuance resulted in an economic gain of \$85,993.

The capital appreciation bonds for the 2007 issue mature on December 1, 2014 and December 1, 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$420,000. For fiscal year 2008, \$17,445 was accreted for a total bond liability of \$85,377.

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2008, are as follows:

Year Ending June 30,	<u>2007 Land</u>		<u>2001 Hiland</u>		<u>2007 Refunding</u>		<u>2007 Capital Appreciation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$14,000	\$ 0	\$ 135,000	\$ 112,833	\$35,000	\$ 72,100	\$ 0	\$ 0
2010	14,000	0	140,000	112,832	35,000	70,700	0	0
2011	0	0	145,000	56,416	35,000	69,300	0	0
2012	0	0	0	0	190,000	64,800	0	0
2013	0	0	0	0	195,000	57,100	0	0
2014-2018	0	0	0	0	630,000	212,200	65,000	355,000
2019-2021	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>700,000</u>	<u>42,800</u>	<u>0</u>	<u>0</u>
Total	<u>\$28,000</u>	<u>\$ 0</u>	<u>\$ 420,000</u>	<u>\$ 282,081</u>	<u>\$1,820,000</u>	<u>\$ 589,000</u>	<u>\$ 65,000</u>	<u>\$ 355,000</u>

NOTE 8 PROPERTY TAXES

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2008 (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property assessments are being phased out. The assessment percentage for all property including inventory for 2007 was 12.5 percent. This will be reduced to 6.25 percent in 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District received property taxes from Holmes and Wayne County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2008 was \$121,043 in the general fund, \$3,919 in the debt service fund, and \$5,293 in the capital projects fund. The amount available as an advance at June 30, 2007 was \$736,899 in the general fund, \$26,454 in the debt service fund, and \$21,782 in the capital projects fund.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

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

The assessed property values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$323,242,180	84.71%	\$352,869,840	90.12%
Public Utility Personal	6,183,690	1.62%	5,178,110	1.32%
Tangible Personal Property	<u>52,161,396</u>	<u>13.67%</u>	<u>33,513,610</u>	<u>8.56%</u>
Total Valuation	<u>\$381,587,266</u>	<u>100.00%</u>	<u>\$391,561,560</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed valuation		\$22.98		\$23.21

NOTE 9 RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with Indiana Insurance. The deductible is \$1,000 per incident on property and \$250 per incident on equipment. All vehicles are insured by Nationwide Insurance and have a \$100 deductible on comprehensive claims and \$500 deductible for collisions. All board members, administrators and employees are covered under a school district liability policy with 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 \$50,000.

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

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

The School District maintains a health self-insurance plan for its employees. The monthly insurance claims are paid to the Plan Administrator, Aultcare Corporation, and recorded as an expense on the School District's books. The School District accounts for this activity in an Internal Service Fund. The plan includes stop loss coverage with a limit of \$125,000 per individual and \$2,095,786 in the aggregate, per year.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

The claims liability of \$117,049 reported in the fund at June 30, 2008, 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, 2008	\$103,235	\$1,913,093	\$1,899,279	\$ 117,049
June 30, 2007	\$ 65,829	\$1,569,213	\$1,531,807	\$ 103,235

NOTE 10 DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$210,559, \$248,117 and \$241,828, respectively; 54.7 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. STATE TEACHERS RETIREMENT SYSTEM

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2008 (Continued)

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

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

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For the fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,093,546, \$1,075,783 and \$1,020,445 respectively; 83.0 percent has been contributed for fiscal year 2008, and 100 percent for the fiscal year 2007 and 2006. Contributions to the DC and combined plans for fiscal year 2008 were \$20,571 made by the School District and \$32,436 made by the plan members.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2008, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

NOTE 11 POSTEMPLOYMENT BENEFITS

A. *SCHOOL EMPLOYEES RETIREMENT SYSTEM*

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

State Statute permits SERS to fund health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with the Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, the amount was \$43,039.

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$139,124, \$117,737, and \$115,930 respectively; 37.78 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. *STATE TEACHERS RETIREMENT SYSTEM*

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

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Year Ended June 30, 2008 (Continued)

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$85,626, \$84,191, and \$79,292 respectively; 83.00 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 12 **NON-CASH TRANSACTIONS**

The District receives food commodities for its food service obligations. The revenue recognized in intergovernmental income from the non-cash commodities was \$79,801.

NOTE 13 **CONTINGENCIES**

GRANTS

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any 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 School District at June 30, 2008.

NOTE 14 **STATUTORY RESERVES**

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

During the fiscal year ended June 30, 2008, the reserve activity (GAAP basis) was as follows:

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Total</u>
(Excess Expenditures) or Balance to be Spent, June 30, 2007	\$ (144,973)	\$ 0	\$ (144,973)
Required Set-Aside	291,623	291,623	583,246
Offset	0	(282,135)	(282,135)
Qualifying Expenditures	<u>(234,733)</u>	<u>(42,749)</u>	<u>(277,482)</u>
(Excess Expenditures) or Shortfall	(88,083)	(33,261)	(121,344)
June 30, 2008 (Excess Expenditures) or Balance to be Spent, Carried Forward	<u>\$ (88,083)</u>	<u>\$ 0</u>	<u>\$ (88,083)</u>

EAST HOLMES LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements
For the Year Ended June 30, 2008
(Continued)

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

NOTE 15 JOINTLY GOVERNED ORGANIZATIONS

A. TRI-COUNTY COMPUTER SERVICE ASSOCIATION (TCCSA)

TCCSA is a jointly governed organization comprised of 23 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these 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 School District's continued participation and measurable equity interest exists.

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	RECEIPTS	NON-CASH RECEIPTS	EXPENDITURES	NON-CASH EXPENDITURES
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<i>(Passed Through Ohio Department of Education)</i>					
Title I Grants to Local Educational Agencies	84.010	\$110,000 880,052		\$193,195 867,083	
Total Title I Grants to Local Educational Agencies		990,052		1,060,278	
Special Education_Grants to States	84.027	0 449,777		69,707 421,330	
Total Special Education_Grants to States		449,777		491,037	
Safe and Drug Free Schools and Communities_State Grants	84.186	19,146		19,146	
State Grants for Innovative Programs	84.298	4,081		4,081	
Education Technology State Grants	84.318	9,631		3,895	
English Language Acquisition Grants	84.365	32,031 248,776		49,494 232,969	
Total English Language Acquisition Grants		280,807		282,463	
Improving Teacher Quality State Grants	84.367	22,000 198,335		34,546 193,413	
Total Improving Teacher Quality State Grants		220,335		227,959	
Total U.S. Department of Education		1,973,829		2,088,859	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<i>(Passed Through Ohio Department of Education)</i>					
Food Donation	10.550		\$79,801		\$84,142
National School Lunch Program	10.555	235,693		235,693	
Total U.S. Department of Agriculture		235,693	79,801	235,693	84,142
Total		<u>\$2,209,522</u>	<u>\$79,801</u>	<u>\$2,324,552</u>	<u>\$84,142</u>

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

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the District's management in a separate letter dated December 1, 2008.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated December 1, 2008.

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

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

Mary Taylor, CPA
Auditor of State

December 1, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT 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
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 apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 1, 2008.

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



Mary Taylor, CPA
Auditor of State

December 1, 2008

**EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA #84.010 National School Lunch Program CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

EAST HOLMES LOCAL SCHOOL DISTRICT
HOLMES COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 27, 2009