

**West Holmes  
Local School District**

*Audited Financial Statements*

*June 30, 2011*





# Dave Yost • Auditor of State

Board of Education  
West Holmes Local School District  
28 West Jackson Street  
Millersburg, Ohio 44654

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

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

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

Dave Yost  
Auditor of State

December 21, 2011

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**WEST HOLMES LOCAL SCHOOL DISTRICT**

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**WEST HOLMES LOCAL SCHOOL DISTRICT**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 30, 2011

The Board of Education  
West Holmes Local School District  
28 W. Jackson Street  
Millersburg, OH 44654

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of West Holmes Local School District (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis on pages 3 through 10 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Rea & Associates, Inc.*



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

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

***Financial Highlights***

Key financial highlights for 2011 are as follows:

- General Revenues accounted for \$22,164,977 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$5,082,746 or 19 percent of total revenues of \$27,247,723.
- Total program expenses were \$25,894,561.
- In total, net assets increased \$1,353,162, which represents a 6 percent increase from 2010.
- Outstanding debt (net) decreased from \$11,827,825 to \$11,285,000 through the payment of bond principal.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the West Holmes Local School District, the general fund 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 the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The government-wide financial statements begin on page 11.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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

***Fund Financial Statements***

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

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

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

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

The governmental fund financial statements begin on page 13.

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

The proprietary fund financial statements begin on page 18.

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

The fiduciary fund financial statement is on page 21.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2011 compared to 2010:

**Table 1**  
**Net Assets**  
**Governmental Activities**

	2011	2010
<b>Assets</b>		
Current and Other Assets	\$ 26,154,141	\$ 25,208,193
Capital Assets	22,268,978	22,405,024
<i>Total Assets</i>	48,423,119	47,613,217
<b>Liabilities</b>		
Long-Term Liabilities	13,456,756	14,023,080
Other Liabilities	12,599,333	12,576,269
<i>Total Liabilities</i>	26,056,089	26,599,349
<b>Net Assets</b>		
Invested in Capital		
Assets, Net of Debt	10,983,968	11,094,186
Restricted	2,682,796	2,072,897
Unrestricted	8,700,266	7,846,785
<i>Total Net Assets</i>	\$ 22,367,030	\$ 21,013,868

Current assets increased by \$945,948. This is primarily due to the result of an increase in equity in pooled cash and cash equivalents due to cash receipts continuing to exceed cash disbursements. The School District, being awarded additional grant monies in fiscal year 2011, resulted in an increase of intergovernmental receivables of \$827,327 from fiscal year 2010. Capital assets decreased by \$136,046, which is attributable to current year depreciation expense exceeding current year purchases. Long-term liabilities decreased by \$566,324 through the repayment of debt principal. Table 2 shows the changes in net assets for fiscal year 2011 and 2010.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2011

**Table 2**  
**Change in Net Assets**  
**Governmental Activities**

	2011	2010
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,512,509	\$ 1,359,077
Operating Grants	3,470,179	2,723,870
Capital Grants	100,058	98,589
<i>General Revenue:</i>		
Property Taxes	9,651,929	9,589,752
Grants and Entitlements	12,347,405	12,519,318
Other	165,643	248,634
<b>Total Revenues</b>	<b>27,247,723</b>	<b>26,539,240</b>
<b>Program Expenses</b>		
Instruction	15,161,560	14,892,952
Support Services	8,412,558	8,106,262
Operation of Non-Instructional	1,101,121	1,049,757
Extracurricular Activities	621,405	591,647
Interest and Fiscal Charges	597,917	702,607
<b>Total Expenses</b>	<b>25,894,561</b>	<b>25,343,225</b>
<b>Increase in Net Assets</b>	<b>\$ 1,353,162</b>	<b>\$ 1,196,015</b>

**Governmental Activities**

The vast majority of revenues supporting governmental activities are general revenues. General revenues decreased from \$22,357,704 in fiscal year 2010 to \$22,164,977 in fiscal year 2011. Operating grants increased \$746,309 due to the School District being awarded additional grant monies in fiscal year 2011.

A review of Table 2 shows that the total cost of instructional services was \$15,161,560 or 59 percent of governmental program expenses. Instructional expenses increased \$268,608 from fiscal year 2010 to 2011 primarily from annual salary increases. Instructional expenses include activities directly related to the teaching of pupils and the interaction between teacher and pupil.

The expense for support services total \$8,412,558 or 32 percent of total governmental program expenses. Support services consist of pupil services and instructional staff which include the activities involved in assisting staff and the content and process of teaching to pupils, along with Board of Education, administration, fiscal and business classifications which reflect expenses associates with establishing and administering school policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3**  
**Total and Net Cost of Program Services**  
**Governmental Activities**

	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	Total Cost of Service	Total Cost of Service	Net Cost of Service	Net Cost of Service
Instruction	\$ 15,161,560	\$ 14,892,952	\$ (12,563,846)	\$ (12,462,893)
Support Services:				
Pupil and Instructional Staff	1,744,353	1,588,551	(924,258)	(1,413,974)
Board of Education, Administration, Fiscal, and Business	2,650,499	2,533,086	(2,457,605)	(2,429,701)
Operation and Maintenance of Plant and Central	2,348,408	2,318,205	(2,248,350)	(2,205,612)
Pupil Transportation	1,669,298	1,646,420	(1,669,298)	(1,646,420)
Operation of Non-Instructional Extracurricular Activities	1,101,121	1,049,757	(29,925)	(44,214)
Interest and Fiscal Charges	621,405	591,647	(321,317)	(256,268)
	<u>597,917</u>	<u>702,607</u>	<u>(597,216)</u>	<u>(702,607)</u>
Total	<u>\$ 25,894,561</u>	<u>\$ 25,323,225</u>	<u>\$ (20,811,815)</u>	<u>\$ (21,161,689)</u>

Program revenues include charges for services, grants, contributions and interest that are program specific. Property taxes made up 35 percent of total revenues for governmental activities for the School District in fiscal year 2011. Program revenues for governmental activities provided 19 percent of governmental revenues with 81 percent of all governmental activities supported through property taxes, grants and entitlements and other general revenues. The grants and entitlements portion of general revenues includes monies received from the Ohio Department of Education, State Foundation Program and property tax relief such as the homestead exemptions and rollbacks provided by HB 920.

***Governmental Funds***

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting.

All governmental funds had total revenues of \$26,525,236 and expenditures of \$26,246,668 for fiscal year 2011.

***General Fund***

The School District's general fund balance increased \$497,687, primarily due to an increase in tuition and fees and extracurricular activities.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2011

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**General Fund Budgeting Highlights**

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

During the course of fiscal year 2011, the School District did modify its general fund estimated resources and appropriations. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budget basis revenue including other financing sources of \$20,577,673 was \$73,404 under the original budget estimate of \$20,651,077. The majority of this decrease is due to an over estimation of intergovernmental revenue. Actual budget basis revenue was in line with final budget amounts. Final appropriations, including other financing uses, of \$20,547,918 were \$71,434 less than the \$20,619,352 in the original appropriations. This decrease is mainly attributable to a decrease in the appropriations for salaries and wages. Actual expenditures of \$20,547,418 were \$500 less than final appropriations of \$20,547,918.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2011, the School District had \$22,268,978 invested in land, buildings and improvements, furniture and equipment, vehicles and infrastructure. Table 4 shows fiscal year 2011 balances compared with 2010.

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

	2011	2010
Land	\$ 643,088	\$ 643,088
Buildings and Improvements	20,489,840	20,886,751
Furniture and Equipment	251,796	243,388
Vehicles	647,574	574,657
Infrastructure	236,680	57,140
Totals	\$ 22,268,978	\$ 22,405,024

The \$136,046 decrease in capital assets was attributable to current year depreciation expense exceeding current year purchases. See Note 9 for additional information.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

***Set-asides***

Senate Bill 345 requires the School District to set aside \$171.94 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2011, this amounted to \$370,794 for each set aside. The School District has qualifying disbursements exceeding these requirements for both set asides.

**Debt**

At June 30, 2011, the School District had \$11,285,000 in bonds outstanding with \$680,000 due within one year. During fiscal year 2011, \$680,000 of capital appreciation bonds were retired. Table 5 summarizes bonds outstanding.

**Table 5**  
**Outstanding Debt, at June 30**  
**Governmental Activities**

	2011	2010
General Obligation Bonds:		
2005 School Improvement Refunding Bonds:		
Serial and Term Bonds	\$ 11,285,000	\$ 11,285,000
Capital Appreciation Bonds	0	542,825
Total	\$ 11,285,000	\$ 11,827,825

In 1996, the residents of the West Holmes Local School District passed a bond issue providing \$16,149,935 for the purpose of constructing a new High School and classroom additions to four of the existing elementary schools. In March of 2005, the School District refinanced the outstanding bonds issued in 1997 for a savings of \$948,518 to maturity, which remains at 12/1/2023. See Note 13 for additional information.

***Current Issues***

The West Holmes Local School District secured its last new operating levy on August 5, 2008, the first new issue since 1994. After repeated levy attempts prior to August 2008, rounds of budget cuts were done. Over 25 positions were cut in the district resulting in a bottom line savings of over \$8 million to date. There are no immediate plans to reinstate all of those positions but to look at the educational needs to serve over 2,500 students each year and make decisions accordingly. It is the goal of the board and administration to allow this levy to secure the School District's financial future for as long as possible. Multiple changes are happening with legislation that have a direct effect on half of the School District's operating income, state foundation revenue. The key is to balance the budget while meeting the state's requirements for academic improvement. Failure to meet these academic improvements result in financial penalties in order to for the state to keep local districts from prioritizing budget needs over instructional.

**West Holmes Local School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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The School District receives 57 percent of its General Fund revenue from State and Federal sources and 43 percent from local sources. With the School District so dependent on State revenue, the State Legislation's decision regarding what kind of school funding system will be put into effect for the future is very important to the School District.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth, which allows the School District to receive Parity Aid. Following the passage of House Bill 66 and the changes in the funding of parity aid, it is now funded at the maximum level to the West Holmes Local School District. The School District was put on the state guarantee in Fiscal Year 2005 which simply means the School District would be funded at the same level as the prior year, resulting in no increase to the School District's main revenue source. Last year, Fiscal Year 2011, the state funding level to the district decreased by almost \$400,000 below the Fiscal Year 2009 funding level. The biennium state budget results in the district losing an additional \$1.5 Million over the next two years, partially due to the elimination of the state stabilization dollars and the expedited phase-out of the tangible personal property tax replacement put into place when the Commercial Activity Tax was introduced.

The School District has controlled expenses very well in tough economic times where all costs are increasing. This has become more difficult with the many mandates and rising utility costs, increased special education services required for our students, and significant increases in all services due to the economy. The changes in the health care plan effective for Fiscal Year 2005 improved the School District's financial position in terms of employee benefits. The School District had a 10 percent increase in premiums for Fiscal Year 2006 and after having one of the best year's the School District has seen for a while, were quoted a 1 percent increase by Aultcare for Fiscal Year 2007. For Fiscal Years 2008 through 2011, the district received no increase in medical insurance premiums for the Aultcare plan. The district negotiated with both the teachers and classified employees unions a maximum of a ten percent allowed increase from Aultcare to maintain the current benefit. This allows the School District to control health care costs at a rate lower than industry trends for medical insurance.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The school district is very fortunate to receive the federal dollars to put toward the necessary programs in order to address student achievement as required by the Ohio Department of Education and the Federal Department of Education. These dollars are given to the School District but are earmarked towards student intervention and improvement of programs for the students. Federal law does not allow the School District to use these dollars for existing general fund expenditures. These dollars have led to the improvement of the School District's report card rating and performance index scores.

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

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

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



**West Holmes Local School District**

*Statement of Net Assets*

*June 30, 2011*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 15,067,517
Receivables:	
Taxes	9,579,444
Accounts	40,387
Intergovernmental	1,235,528
Inventory Held For Resale	48,232
Materials and Supplies	44,205
Deferred Charges	138,828
Nondepreciable Capital Assets	643,088
Depreciable Capital Assets (Net)	<u>21,625,890</u>
<i>Total Assets</i>	<u>48,423,119</u>
<b>Liabilities</b>	
Accounts Payable	252,402
Accrued Wages and Benefits	2,674,179
Intergovernmental Payable	660,652
Matured Compensated Absences Payable	111,642
Deferred Revenue	8,500,910
Accrued Vacation Payable	194,752
Accrued Interest Payable	37,356
Claims Payable	167,440
Long Term Liabilities:	
Due Within One Year	732,195
Due In More Than One Year	<u>12,724,561</u>
<i>Total Liabilities</i>	<u>26,056,089</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	10,983,968
Restricted for:	
Capital Projects	641,918
Debt Service	830,910
Other Purposes	1,209,968
Unrestricted	<u>8,700,266</u>
<i>Total Net Assets</i>	<u>\$ 22,367,030</u>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 11,329,708	\$ 621,463	\$ 300,008	\$ 0	\$ (10,408,237)
Special	3,567,178	27,285	1,578,954	0	(1,960,939)
Vocational	264,674	0	70,004	0	(194,670)
Support Services:					
Pupils	767,773	19,919	728,645	0	(19,209)
Instructional Staff	976,580	4,778	66,753	0	(905,049)
Board of Education	40,631	0	0	0	(40,631)
Administration	2,029,927	64,539	125,355	0	(1,840,033)
Fiscal	567,698	0	3,000	0	(564,698)
Business	12,243	0	0	0	(12,243)
Operation and Maintenance of Plant	2,269,694	0	0	100,058	(2,169,636)
Pupil Transportation	1,669,298	0	0	0	(1,669,298)
Central	78,714	0	0	0	(78,714)
Operation of Non-Instructional Services:					
Food Service Operations	1,046,643	474,892	596,304	0	24,553
Community Services	54,478	0	0	0	(54,478)
Extracurricular Activities	621,405	299,633	455	0	(321,317)
Interest and Fiscal Charges	597,917	0	701	0	(597,216)
<b>Total Governmental Activities</b>	<b>\$ 25,894,561</b>	<b>\$ 1,512,509</b>	<b>\$ 3,470,179</b>	<b>\$ 100,058</b>	<b>(20,811,815)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					8,269,454
Debt Service					981,473
Capital Outlay					401,002
Grants and Entitlements not Restricted to Specific Programs					12,347,405
Investment Earnings					81,692
Miscellaneous					83,951
<b>Total General Revenues</b>					<b>22,164,977</b>
<b>Change in Net Assets</b>					<b>1,353,162</b>
<b>Net Assets Beginning of Year</b>					<b>21,013,868</b>
<b>Net Assets End of Year</b>					<b>\$ 22,367,030</b>

See accompanying notes to the basic financial statements.

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 11,073,652	\$ 2,041,968	\$ 13,115,620
Receivables:			
Taxes	8,215,936	1,363,508	9,579,444
Accounts	40,387	0	40,387
Interfund	105,244	0	105,244
Intergovernmental	27,438	1,208,090	1,235,528
Inventory Held For Resale	0	48,232	48,232
Materials and Supplies	44,205	0	44,205
Advances to Other Funds	250,000	0	250,000
<i>Total Assets</i>	<u>\$ 19,756,862</u>	<u>\$ 4,661,798</u>	<u>\$ 24,418,660</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 143,357	\$ 109,045	\$ 252,402
Accrued Wages and Benefits	2,328,777	345,402	2,674,179
Interfund Payable	0	105,244	105,244
Intergovernmental Payable	551,938	108,714	660,652
Matured Compensated Absences Payable	111,642	0	111,642
Deferred Revenue	7,602,272	2,367,709	9,969,981
<i>Total Liabilities</i>	<u>10,737,986</u>	<u>3,036,114</u>	<u>13,774,100</u>
<b>Fund Balances</b>			
Nonspendable	294,205	48,232	342,437
Restricted	0	1,776,607	1,776,607
Assigned	402,843	0	402,843
Unassigned	8,321,828	(199,155)	8,122,673
<i>Total Fund Balances</i>	<u>9,018,876</u>	<u>1,625,684</u>	<u>10,644,560</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 19,756,862</u>	<u>\$ 4,661,798</u>	<u>\$ 24,418,660</u>

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balances	\$	10,644,560
 <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.		22,268,978
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 1,137,911	
Delinquent Property Taxes	331,160	1,469,071
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.		1,534,457
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.		138,828
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is not recorded.		(37,356)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Vacation Payable	(194,752)	
Compensated Absences	(2,032,916)	
General Obligation Bonds	(11,285,000)	
Refunding Loss	541,921	
Unamortized Bond Premium	(680,761)	(13,651,508)
 Net Assets of Governmental Activities	 \$	 <u><u>22,367,030</u></u>

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$ 8,275,646	\$ 1,383,505	\$ 9,659,151
Intergovernmental	11,469,349	3,713,830	15,183,179
Investment Income	81,692	701	82,393
Tuition and Fees	628,612	500	629,112
Extracurricular Activities	203,031	160,523	363,554
Rentals	30,448	10,140	40,588
Charges for Services	0	463,457	463,457
Contributions and Donations	18,396	1,455	19,851
Miscellaneous	65,510	18,441	83,951
<i>Total Revenues</i>	<u>20,772,684</u>	<u>5,752,552</u>	<u>26,525,236</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	10,392,978	577,893	10,970,871
Special	1,917,778	1,693,262	3,611,040
Vocational	242,370	0	242,370
Support Services:			
Pupils	799,331	10,322	809,653
Instructional Staff	679,634	290,206	969,840
Board of Education	30,034	10,597	40,631
Administration	1,839,316	132,409	1,971,725
Fiscal	248,340	309,969	558,309
Business	1,440	0	1,440
Operation and Maintenance of Plant	2,088,175	26,958	2,115,133
Pupil Transportation	1,559,571	176,056	1,735,627
Central	66,023	10,360	76,383
Operation of Non-Instructional Services:			
Food Service Operations	5,284	1,023,719	1,029,003
Community Services	68,713	0	68,713
Extracurricular Activities	336,010	171,780	507,790
Capital Outlay	0	396,264	396,264
Debt Service:			
Principal Retirement	0	25,826	25,826
Interest and Fiscal Charges	0	1,116,050	1,116,050
<i>Total Expenditures</i>	<u>20,274,997</u>	<u>5,971,671</u>	<u>26,246,668</u>
<i>Net Change in Fund Balance</i>	497,687	(219,119)	278,568
<i>Fund Balance Beginning of Year (Restated, see Note 4)</i>	<u>8,521,189</u>	<u>1,844,803</u>	<u>10,365,992</u>
<i>Fund Balance End of Year</i>	<u>\$ 9,018,876</u>	<u>\$ 1,625,684</u>	<u>\$ 10,644,560</u>

See accompanying notes to the basic financial statements.

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

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Net Change in Fund Balances - Total Governmental Funds	\$	278,568
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***Amounts reported for governmental activities in the statement of activities are different because:***

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

Capital Asset Additions	\$ 689,844	
Current Year Depreciation	<u>(825,890)</u>	(136,046)

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

Grants	729,710	
Delinquent Property Taxes	<u>(7,223)</u>	722,487

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

Bond Principal	25,826	
Accreted Interest	<u>654,174</u>	680,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

1,134

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.

Bond Premium Amortization	53,393	
Accrued Vacation Payable	(13,438)	
Compensated Absences	12,610	
Bond Issuance Costs Amortization	(10,889)	
Refunding Loss Amortization	(42,504)	
Capital Appreciation Bond Accretion	<u>(137,175)</u>	(138,003)

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

(54,978)

Change in Net Assets of Governmental Activities

\$ 1,353,162

See accompanying notes to the basic financial statements.

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 8,153,936	\$ 8,239,355	\$ 8,239,355	\$ 0
Intergovernmental	11,682,620	11,469,349	11,469,349	0
Investment Income	132,027	96,543	81,692	(14,851)
Tuition and Fees	540,595	628,612	628,612	0
Extracurricular Activities	56,900	30,448	30,448	0
Rentals	22,194	55,550	55,550	0
Miscellaneous	62,695	57,816	57,316	(500)
<i>Total Revenues</i>	<u>20,650,967</u>	<u>20,577,673</u>	<u>20,562,322</u>	<u>(15,351)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	10,662,163	10,570,547	10,570,544	3
Special	1,931,318	1,914,723	1,914,723	0
Vocational	268,978	266,666	266,667	(1)
Support Services				
Pupils	778,661	771,970	771,970	0
Instructional Staff	662,505	656,811	656,812	(1)
Board of Education	41,996	41,634	41,635	(1)
Administration	1,805,984	1,790,467	1,790,466	1
Fiscal	253,056	251,383	250,882	501
Business	1,452	1,440	1,440	0
Operation and Maintenance of Plant	2,236,520	2,217,300	2,217,302	(2)
Pupil Transportation	1,584,287	1,570,674	1,570,674	0
Central	77,453	76,787	76,787	0
Operation of Non-Instructional Services:				
Food Service Operations	53,284	52,826	52,826	0
Extracurricular Activities	261,695	259,446	259,446	0
<i>Total Expenditures</i>	<u>20,619,352</u>	<u>20,442,674</u>	<u>20,442,174</u>	<u>500</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>31,615</u>	<u>134,999</u>	<u>120,148</u>	<u>(14,851)</u>
<b>Other Financing Uses</b>				
Refund of Prior Year Expenditures	110	0	0	0
Advances Out	0	(105,244)	(105,244)	0
<i>Total Other Financing Sources (Uses)</i>	<u>110</u>	<u>(105,244)</u>	<u>(105,244)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	31,725	29,755	14,904	(14,851)
<i>Fund Balance Beginning of Year</i>	10,051,546	10,051,546	10,051,546	0
Prior Year Encumbrances Appropriated	398,175	398,175	398,175	0
<i>Fund Balance End of Year</i>	<u>\$ 10,481,446</u>	<u>\$ 10,479,476</u>	<u>\$ 10,464,625</u>	<u>\$ (14,851)</u>

See accompanying notes to the basic financial statements.

**West Holmes Local School District**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2011*

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	Governmental Activities - Internal Service Fund
<b>Assets</b>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,951,897</u>
<b>Liabilities</b>	
<i>Current Liabilities:</i>	
Claims Payable	<u>167,440</u>
<i>Long Term Liabilities:</i>	
Advances From Other Funds	<u>250,000</u>
<i>Total Liabilities</i>	<u>417,440</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$ 1,534,457</u></u>

See accompanying notes to the basic financial statements.



**West Holmes Local School District**  
*Statement of Revenues, Expenses, and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2011*

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	<u>Governmental Activities - Internal Service Fund</u>
<b>Operating Revenue</b>	
Charges for Services	<u>\$ 3,063,586</u>
<b>Operating Expenses</b>	
Purchased Services	518,484
Claims	<u>2,600,080</u>
<i>Total Operating Expenses</i>	<u>3,118,564</u>
<i>Change in Net Assets</i>	(54,978)
<i>Net Assets Beginning of Year</i>	<u>1,589,435</u>
<i>Net Assets End of Year</i>	<u><u>\$ 1,534,457</u></u>

See accompanying notes to the basic financial statements.

**West Holmes Local School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2011*

	Governmental Activities - Internal Service Fund
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 3,063,586
Cash Paid for Goods and Services	(518,484)
Cash Paid for Claims	(2,597,680)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>(52,578)</i>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<i>(52,578)</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>2,004,475</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$ 1,951,897</i>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>	
Operating Income (Loss)	\$ (54,978)
Adjustment:	
Increase in Claims Payable	2,400
<i>Net Cash Provided By (Used For) Operating Activities</i>	<i>\$ (52,578)</i>

See accompanying notes to the basic financial statements.

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

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ <u>100,585</u>
<b>Liabilities</b>	
Accounts Payable	3,340
Due to Students	<u>97,245</u>
<i>Total Liabilities</i>	<u>\$ 100,585</u>

See accompanying notes to the basic financial statements.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 1 – Description of the School District and Reporting Entity**

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

The School District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2010, was 2,556. The School District employs 183 certificated and 123 non-certificated employees.

*Reporting Entity*

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

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

The School District is involved with Tri-County Computer Service Association (TCCSA) and Ashland County-West Holmes Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 14.

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

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

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The most significant of the School District's accounting policies are described below.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (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 also eliminated to avoid "doubling up" revenues and expenses.

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

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

***B. Fund Accounting***

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

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

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

**Proprietary Fund Type** Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

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

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

**C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) in total net assets.

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund 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 and the statements for the proprietary and fiduciary funds are prepared using 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 sixty days of the fiscal year-end.

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

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

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

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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 fund level. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels 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 and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

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 the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

***F. Cash and Cash Equivalents***

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

During fiscal year 2011, investments were limited to money market accounts, certificates of deposit and STAROhio.



**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the general fund to receive allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$ 81,692 with \$13,668 assigned from other 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 "equity in pooled cash and cash equivalents." Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

***G. Inventory***

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food held for resale.

***H. Deferred Charges***

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method.

***I. Capital Assets***

The School District's only capital assets are 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 maintains a capitalization threshold of three thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	10 Years
Infrastructure	10 - 50 Years

***J. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans and interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances are eliminated in the governmental activities column of the statement of net assets.

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

***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 School District 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. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employee will be paid.

***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 and accrued liabilities from internal service fund are reported on the proprietary fund financial statements.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

***M. 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 repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayment from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

***N. 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. At June 30, 2011, none of the School District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities and grants.

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

***O. Fund Balance***

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

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

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

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

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

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

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School District considers committed, assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

***P. Operating Revenues and Expenses***

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

***Q. Extraordinary and Special Items***

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***R. Estimates***

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

***S. Changes in Accounting Principles***

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

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

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

**Note 3 – Accountability**

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

*Non-major Special Revenue Funds:*

Race to the Top	\$ 675
Title I	75,745
Title VI-B	101,387
Title II-A	21,348

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2011

**Note 4: Restatement of Fund Balances**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54. These fund reclassifications had the following effect on the School District' governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund Balance Previously Reported at June 30, 2010	\$ 8,440,865	\$ 1,925,127	\$ 10,365,992
Fund Reclassification:			
Public School Support Fund	80,324	(80,324)	0
Restated Fund Balance at July 1, 2010	\$ 8,521,189	\$ 1,844,803	\$ 10,365,992

The fund reclassifications did not have an effect on net assets previously reported.

**Note 5 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2011

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**Note 5 - Budgetary Basis of Accounting (Continued)**

**Net Change in Fund Balance**

GAAP Basis	\$	497,687
Net Adjustment for Revenue Accruals		(40,722)
Net Adjustment for Expenditure Accruals		(20,693)
Funds Budgeted Elsewhere**		3,403
Adjustment for Encumbrances		(424,771)
		(424,771)
Budget Basis	\$	14,904

\*\* As part of Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes public school support funds.

**Note 6 - Deposits and Investments**

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

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

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

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

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

- 1) United States Treasury Notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 6 - Deposits and Investments (Continued)**

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

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

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2011, the School District and public depositories complied with the provisions of these statutes.



**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

**Note 6 - Deposits and Investments (Continued)**

**Deposits with Financial Institutions**

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

At fiscal year-end, the carrying amount of the School District's deposits was \$15,162,473. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2011, \$13,131,875 of the School District's bank balance of \$15,379,709 was exposed to custodial risk as discussed above, while \$2,247,834 was covered by Federal Deposit Insurance Corporation.

**Investments**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 Months or Less</u>
STAROhio	\$ 5,629	\$ 5,629

***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 two years or less for investments with a fixed interest rate, and one year or less for investments with a variable interest rate.

***Credit Risk.*** Standard & Poor's has assigned STAROhio an AAAM rating.

***Custodial Credit Risk.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

***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, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
STAROhio	\$ 5,629	100%

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 7 - Property Taxes**

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

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

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

Tangible personal property tax revenues received during calendar 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

**Note 7 - Property Taxes (Continued)**

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

The amount available as an advance at June 30, 2011, was \$747,373 and is recognized as revenue. \$641,102 was available to the general fund, \$76,710 was available to the bond retirement debt service fund and \$29,561 was available to the permanent improvement capital projects fund reported with other governmental funds.

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

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

	2010 Second-Half Collections		2011 First-Half Collections	
	Amount	Percent	Amount	Percent
Real Property:				
Residential/Agricultural	\$ 249,407,750	79%	\$ 274,237,950	79%
Commercial/Industrial	42,296,720	14%	43,829,260	13%
Public Utilities	40,930	0%	55,430	0%
Mineral	2,413,900	1%	2,294,000	1%
Tangible Personal Property:				
General	721,060	0%	1,878,200	1%
Public Utilities	17,662,420	6%	18,866,140	6%
Total Capital Assets, Net	<u>\$ 312,542,780</u>	<u>100%</u>	<u>\$ 341,160,980</u>	<u>100%</u>
Tax rate per \$1,000 of assessed value	<u>\$ 36.05</u>		<u>\$ 35.75</u>	

**Note 8 - Receivables**

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

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2011

**Note 9 – Capital Assets**

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

	Balance 07/01/2010	Additions	Reductions	Balance 06/30/2011
<b>Governmental Activities</b>				
<i>Capital Assets, not Being Depreciated</i>				
Land	\$ 643,088	\$ 0	\$ 0	\$ 643,088
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	31,923,824	278,277	(7,490)	32,194,611
Furniture and Equipment	1,335,985	68,068	0	1,404,053
Vehicles	2,311,892	161,852	(55,316)	2,418,428
Infrastructure	90,225	181,647	0	271,872
<i>Total Capital Assets, Being Depreciated</i>	<u>35,661,926</u>	<u>689,844</u>	<u>(62,806)</u>	<u>36,288,964</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(11,037,073)	(675,188)	7,490	(11,704,771)
Furniture and Equipment	(1,092,597)	(59,660)	0	(1,152,257)
Vehicles	(1,737,235)	(88,935)	55,316	(1,770,854)
Infrastructure	(33,085)	(2,107)	0	(35,192)
<i>Total Accumulated Depreciation</i>	<u>(13,899,990)</u>	<u>(825,890) *</u>	<u>62,806</u>	<u>(14,663,074)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>21,761,936</u>	<u>(136,046)</u>	<u>0</u>	<u>21,625,890</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 22,405,024</u>	<u>\$ (136,046)</u>	<u>\$ 0</u>	<u>\$ 22,268,978</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 481,828
Special	2,026
Vocational	20,256
Support Services:	
Pupil	2,802
Instructional Staff	2,360
Administration	18,230
Fiscal	4,051
Business	10,803
Operation and Maintenance of Plant	29,853
Pupil Transportation	99,081
Operation of Non-Instructional Services	40,985
Extracurricular Activities	113,615
<i>Total Depreciation</i>	<u>\$ 825,890</u>

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

**Note 10 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with a deductible of \$2,500 per incident. The School District's vehicle insurance policy limit is \$1,000,000 with a \$1,000 collision deductible. All board members, administrators, and employees are covered under a school district liability policy. Additionally, the School District carries a \$1,000,000 blanket umbrella policy. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 in aggregate. Settlements have not exceeded insurance coverage in any of the last three years. There has not been reductions in coverage from the prior year.

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

***B. Employee Medical Benefits***

The School District has established a limited risk management program for its medical insurance program. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$60,000, and aggregate claims in excess of \$3,090,137. The liability for unpaid claims cost of \$167,440 is reported in the fund at June 30, 2011 in accordance with Government Accounting Standards Board Statement No. 10.

Changes in the fund's claims liability amount in 2011 and 2010 were:

	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2010	\$ 120,123	\$ 2,510,649	\$ 2,465,732	\$ 165,040
2011	\$ 165,040	\$ 2,600,080	\$ 2,597,680	\$ 167,440

**Note 11 - Defined Benefit Pension Plans**

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

Plan Description - The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple employer pension plan. SERS provides retirement and disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 11 - Defined Benefit Pension Plans (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations and death benefits. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts 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, 2011, 2010 and 2009 were \$465,899, \$467,079 and \$431,821 respectively; 43 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009.

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

Plan Description - The School District participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 11 - Defined Benefit Pension Plans (Continued)**

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for 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 STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,501,712, \$1,464,248 and \$1,404,720 respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for the fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$49,855 made by the School District and \$53,436 made by the plan members.

***C. Social Security System***

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

**Note 12 - Postemployment Benefits**

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

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's 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, Ohio 43215-3746. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 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 2011, this amount was \$35,800.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 12 - Postemployment Benefits (Continued)**

Active employee members 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, 2011, 2010, and 2009 were \$47,588, 15,347, and \$128,313, respectively; 43 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$25,292, \$25,356, and \$23,133, respectively; 43 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

Plan Description – 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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$107,265, \$104,589, and \$100,337, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.



**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2011

**Note 13 - Long - Term Obligations**

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

	Outstanding 6/30/2010	Additions	Reductions	Outstanding 6/30/2011	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>2005 School Improvement</i>					
<i>Refunding Bonds \$13,114,986</i>					
Current Interest Bonds -					
\$13,010,000 @ 3% -5.5%	\$ 11,285,000	\$ 0	\$ 0	\$ 11,285,000	\$ 680,000
Capital Appreciation Bonds -					
\$104,986 @ 3.13%-3.52%	25,826	0	(25,826)	0	0
Accretion of Interest	516,999	137,175	(654,174)	0	0
Premium	734,154	0	(53,393)	680,761	0
Refunding Loss	(584,425)	0	42,504	(541,921)	0
Compensated Absences	2,045,526	178,429	(191,039)	2,032,916	52,195
<i>Total Governmental Activities</i>	<u>\$ 14,023,080</u>	<u>\$ 315,604</u>	<u>\$ (881,928)</u>	<u>\$ 13,456,756</u>	<u>\$ 732,195</u>
<i>Long-Term Liabilities</i>	<u>\$ 14,023,080</u>	<u>\$ 315,604</u>	<u>\$ (881,928)</u>	<u>\$ 13,456,756</u>	<u>\$ 732,195</u>

On March 23, 2005, the School District issued \$13,114,986 of general obligation bonds. The bonds advance refunded \$13,115,000 of outstanding 1997 School Improvement General Obligation Bonds. The bonds were issued for a 19 year period with final maturity at December 1, 2023. At the date of refunding, \$13,922,570 (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 refunded 1997 School Improvement Bonds.

These refunding bonds were issued with a premium of \$1,104,468 which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method; the amortization of the premium for fiscal year 2011 was \$53,393. The issuance costs of \$138,830 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method, the amortization of the issuance costs for fiscal year 2011 was \$10,889. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$807,570. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method, the amortization of this difference for fiscal year 2011 was \$42,504. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$948,518. The issuance resulted in an economic gain of \$678,264. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental column of the statement of net assets. The principal balance outstanding on the defeased bonds was \$10,360,000 at June 30, 2011.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2011

**Note 13 - Long - Term Obligations (Continued)**

The 2005 bond issue consists of current interest, current interest term, and capital appreciation bonds. The capital appreciation bonds are not subject to early redemption. The current interest bonds maturing on and after December 1, 2015, are subject to optional prior redemption by the School District prior to maturity, beginning December 1, 2014. The current interest term bonds are subject to mandatory sinking fund redemption requirements.

The capital appreciation bonds for the 2005 issue matured on December 1, 2010. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holders receive the face value of the bond. As the value of the bond increases, the accretion is reflected as a long-term liability. The maturity amount of the bonds is \$680,000. For fiscal year 2011, \$137,175 was accreted. Bonds were retired in fiscal year 2011.

General obligation and capital appreciation bonds will be paid from the debt service fund. Compensated absences will be paid from the general and food service funds, which has been the policy in prior years. Capital leases have been paid from the general fund.

2005 School Improvement Refunding Bonds

	<u>General Obligation Bonds</u>	
Fiscal Year	<u>Principal</u>	<u>Interest</u>
2012	\$ 680,000	\$ 448,276
2013	705,000	422,779
2014	730,000	398,107
2015	755,000	371,554
2016	785,000	342,075
2017-2021	4,470,000	1,167,290
2022-2024	<u>3,160,000</u>	<u>205,276</u>
	<u>\$ 11,285,000</u>	<u>\$ 3,355,357</u>

**Note 14 - 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 districts support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, located in Wooster, Ohio which serves as fiscal agent.

**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 14 - Jointly Governed Organizations (Continued)**

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

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

**Note 15 – Contingencies**

***A. Grants***

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

***B. Litigation***

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

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**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2011*

**Note 16 - Set-Asides**

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

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2010	\$ (527,569)	\$ 0
Current Year Set-aside Requirement	370,794	370,794
Contributions in Excess of the Current Fiscal Year		
Set-aside Requirement	0	0
Current Year Qualified Expenditures	(357,128)	(501,020)
Excess Qualified Expenditures from Prior Years	0	0
Current Year Offsets	0	0
Waiver Granted by the Department of Education	0	0
Prior Year Offset from Bond Proceeds	0	0
Totals	\$ (513,903)	\$ (130,226)
Balance Carried Forward to Fiscal Year 2012	\$ 0	\$ 0
Set-aside Reserve Balance as of June 30, 2011	\$ 0	\$ 0

The School District had qualifying disbursements during the year that reduced the textbook reserve set-asides below zero. These extra amounts may be used to reduce the set-aside requirement in future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital improvement set-aside, this amount may not be used to reduce the set-aside requirement for future years. Effective July 1, 2011, textbook set-aside laws have been repealed.

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**West Holmes Local School District**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2011

**Note 17: Fund Balance**

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

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

	General	Other Governmental Funds	Total
Nonspendable for:			
Long-Term Advance	\$ 250,000	\$ 0	\$ 250,000
Inventory	44,205	48,232	92,437
Total Nonspendable	<u>294,205</u>	<u>48,232</u>	<u>342,437</u>
Restricted for:			
Debt Service	0	834,253	834,253
Capital Outlay	0	628,772	628,772
Other Purposes	0	313,582	313,582
Total Restricted	<u>0</u>	<u>1,776,607</u>	<u>1,776,607</u>
Assigned for:			
Encumbrances	<u>402,843</u>	<u>0</u>	<u>402,843</u>
Unassigned	8,321,828	(199,155)	8,122,673
<i>Total Fund Balance (Deficit)</i>	<u><u>\$ 9,018,876</u></u>	<u><u>\$ 1,625,684</u></u>	<u><u>\$ 10,644,560</u></u>

**Note 18 – Interfund Activity**

At June 30, 2011, the School District had the following interfund balances:

	Interfund Receivable	Interfund Payable	Advances to Other Funds	Advances from Other Funds
General	\$ 105,244	\$ 0	\$ 250,000	\$ 0
Internal Service	0	0	0	250,000
Race to the Top	0	8,306	0	0
Title I	0	78,600	0	0
Title VI-B	0	18,338	0	0
	<u><u>\$ 105,244</u></u>	<u><u>\$ 105,244</u></u>	<u><u>\$ 250,000</u></u>	<u><u>\$ 250,000</u></u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30, 2011. The outstanding advances are expected to be repaid once the anticipated revenues are received.



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 30, 2011

To the Board of Education  
West Holmes Local School District  
28 W. Jackson Street  
Millersburg, OH 44654

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

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

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

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

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

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

**Compliance and Other Matters**

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

We did note certain matters that we reported to management of the School District in a separate letter dated November 30, 2011.

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

*Rea & Associates, Inc.*



November 30, 2011

The Board of Education  
West Holmes Local School District  
28 W. Jackson Street  
Millersburg, OH 44654

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

**Compliance**

We have audited the compliance of the West Holmes Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.



**Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

*Hea & Associates, Inc.*

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

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
<b>U. S. Department of Education (Passed Through Ohio Department of Education):</b>				
<i>Title I Cluster</i>				
Title I	84.010	2010	\$ 98,324	\$ 119,397
Title I	84.010	2011	663,251	666,451
Title I - ARRA	84.389	2010	0	19,864
Title I - ARRA	84.389	2011	99,487	171,947
Total Title I Cluster			861,062	977,659
<i>Special Education Cluster</i>				
IDEA-B	84.027	2010	105,013	80,296
IDEA-B	84.027	2011	470,611	483,142
IDEA-B - ARRA	84.391	2010	0	32,813
IDEA-B - ARRA	84.391	2011	277,938	305,189
Total Special Education Cluster			853,562	901,440
Race to the Top Incentive Grant- ARRA	84.395	2011	38,892	41,441
Total Race to the Top Incentive Grant			38,892	41,441
Title II-D	84.318	2011	2,781	1,442
Total Title II-D			2,781	1,442
Title II-A	84.367	2010	21,815	22,015
Title II-A	84.367	2011	131,182	130,612
Total Title II-A			152,997	152,627
State Fiscal Stabilization Fund - ARRA	84.394	2011	840,210	840,210
Total State Fiscal Stabilization Fund			840,210	840,210
Total U.S. Department of Education			2,749,504	2,914,819
<b>U. S. Department of Agriculture (Passed Through Ohio Department of Education):</b>				
<i>Nutrition Cluster</i>				
Non-Cash Assistance:				
School Breakfast Program	(B) 10.553	2011	13,774	13,774
Cash Assistance:				
School Breakfast Program	(A) 10.553	2011	102,675	102,675
Total School Breakfast Program			116,449	116,449
Non-Cash Assistance:				
National School Lunch Program	(B) 10.555	2011	58,446	58,446
Cash Assistance:				
National School Lunch Program	(A) 10.555	2011	481,066	481,066
Total National School Lunch Program			539,512	539,512
<i>Total Nutrition Cluster</i>			655,961	655,961
Total U.S. Department of Agriculture			655,961	655,961
Total Federal Assistance			\$ 3,405,465	\$ 3,570,780

See accompanying notes to the Schedule of Expenditures of Federal Awards

**West Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis*  
*For the Fiscal Year Ended June 30, 2011*

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**Note A - Child Nutrition Cluster**

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

**Note B – Food Donation Program**

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

**Note C - Transfers**

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

<u>CFDA</u>		<u>Program</u>		
<u>Number</u>	<u>Program Title</u>	<u>Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.010	Title I Grants to Local Educational Agencies	2010	\$ 39,714	
84.010	Title I Grants to Local Educational Agencies	2011		\$ 39,714
84.389	Title I Grants to Local Educational Agencies- ARRA	2010	13,807	
84.389	Title I Grants to Local Educational Agencies- ARRA	2011		13,807
84.027	IDEA-B - Special Education - Grants to States	2010	48,692	
84.027	IDEA-B - Special Education - Grants to States	2011		48,692
84.391	IDEA-B - Special Education - Grants to States- ARRA	2010	19,607	
84.391	IDEA-B - Special Education - Grants to States- ARRA	2011		19,607
84.318	Title II-D - Education Technology	2010	567	
84.318	Title II-D - Education Technology	2011		567
84.367	Title II-A - Improving Teacher Quality	2010	9,169	
84.367	Title II-A - Improving Teacher Quality	2011		9,169

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

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

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any significant deficiencies or material weaknesses reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Nutrition Cluster CFDA # 10.553 & 10.555 Special Education Cluster CFDA: 84.027 & 84.391 - ARRA State Fiscal Stabilization Fund - ARRA CFDA: 84.394
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	Yes

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

None were noted

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

None were noted



## Independent Accountant's Report on Applying Agreed-Upon Procedure

November 30, 2011

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on September 19, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

*Rea & Associates, Inc.*

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# Dave Yost • Auditor of State

**WEST HOLMES LOCAL SCHOOL DISTRICT**

**HOLMES COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 5, 2012**