

HOLGATE LOCAL SCHOOL DISTRICT

Basic Financial Statements

Years Ended June 30, 2005 and 2004

With

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Trustees
Holgate Local School District
103 Frazier Street
Holgate, Ohio 43527

We have reviewed the *Independent Auditors' Report* of the Holgate Local School District, Henry County, prepared by Clark, Schaefer, Hackett & Co. for the audit period July 1, 2003 through June 30, 2005. 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 Holgate Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 21, 2006

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HOLGATE LOCAL SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Holgate Local School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holgate Local School District (the School District), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of School District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2005 and 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the 2004 financial statements, the School District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for States and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* for the year ended June 30, 2004.

The School District also implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosure* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers* for the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006, 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 3-8 and 37-42 are not a required part of the basic financial statements but are supplementary information required by 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
September 14, 2006

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

The discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

In total, net assets increased \$1,418,516.

General revenues accounted for \$3,831,461, or 66 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$2,009,976 or 34 percent of total revenues of \$5,841,437.

The District's major funds included the General Fund and the OSFC Capital Projects Fund. The General Fund had \$3,636,771 in revenues and \$3,617,084 in expenditures. The General Fund's balance increased \$19,687 from the prior fiscal year. The OSFC Capital Projects Fund had \$1,407,790 in revenues and \$839,351 in expenditures. The OSFC Capital Projects Fund's balance increased \$568,439 from the prior fiscal year.

The revenue generated from the Debt Service Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant operating fund. The General Fund and the OSFC Capital Projects Fund are the only two major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**Table 1
Net Assets
Governmental Activities**

	2004
<u>Assets:</u>	
Current and Other Assets	\$19,982,065
Capital Assets, Net	2,556,106
Total Assets	22,538,171
<u>Liabilities:</u>	
Current and Other Liabilities	1,565,372
Long-Term Liabilities	3,245,184
Total Liabilities	4,810,556
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	1,070,123
Restricted	15,476,565
Unrestricted	1,180,927
Total	\$17,727,615

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

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

	2004
<u>Revenues:</u>	
Program Revenues:	
Charges for Services and Sales	\$475,697
Operating Grants, Contributions and Interest	173,004
Capital Grants and Contributions	1,361,275
Total Program Revenues	2,009,976
General Revenues:	
Property Taxes	1,103,581
Income Taxes	441,430
Grants and Entitlements	2,194,690
Investment Earnings	78,999
Gifts and Donations	11,331
Miscellaneous	1,430
Total General Revenues	3,831,461
Total Revenues	5,841,437

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

<u>Expenses:</u>	
Instruction	2,607,366
Support Services:	
Pupils	20,265
Instructional Staff	165,818
Board of Education	17,537
Administration	429,193
Fiscal	173,757
Business	60
Operation and Maintenance of Plant	269,198
Pupil Transportation	109,675
Central	87,916
Non-Instructional	175,627
Extracurricular Activities	215,254
Interest and Fiscal Charges	151,255
Total Expenses	4,422,921
Increase in Net Assets	\$1,418,516

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
	2004	2004
Instruction	\$2,607,366	\$843,203
Support Services:		
Pupils	20,265	17,808
Instructional Staff	165,818	163,055
Board of Education	17,537	17,537
Administration	429,193	429,193
Fiscal	173,757	173,757
Business	60	60
Operation and Maintenance of Plant	269,198	269,198
Pupil Transportation	109,675	109,675
Central	87,916	87,916
Non-Instructional	175,627	48,467
Extracurricular Activities	215,254	102,281
Interest and Fiscal Charges	151,255	151,255
Total Expenses	\$4,422,921	\$2,412,945

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 32 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 55 percent. The remaining 45 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund. Total governmental funds had revenues of \$5,863,554 and expenditures of \$5,262,569. The net positive change of \$600,985 in fund balance for the year indicates that the District is able to meet current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$4,095,170 while actual expenditures were \$3,706,470. The \$388,700 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$2,556,106 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$2,950,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2024. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District's overall legal debt margin was \$289,013, with an un-voted debt margin of \$35,989.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Holgate is a small rural community of 1,196 people located in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The district is currently operating in the first year of the state biennium budget. 57.1 percent of district revenue sources are from local funds, 39.9 percent from state funds and the remaining 2.9 percent is from federal funds. The total expenditure per pupil was calculated at \$7,298.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Over the past several years, the District has remained in a good financial position. In March 2004, the District passed a five-year emergency renewal levy to generate \$91,000 annually and a five-year permanent improvement renewal levy to generate \$60,000 annually. These levies provide a source of funds for the financial operations and stability of the district along with school improvements. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Amy Dietrich, Treasurer, Holgate Local School District, 103 Frazier Street, Holgate, Ohio 43527.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Net Assets
June 30, 2004**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	7,520,289
Materials and Supplies Inventory		12,905
Accrued Interest Receivable		69,491
Accounts Receivable		367
Intergovernmental Receivable		11,083,421
Prepaid Items		3,276
Taxes Receivable		1,046,851
Income Taxes Receivable		150,750
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents		94,715
Non-Depreciable Capital Assets		1,657,340
Depreciable Capital Assets, net		898,766
Total Assets		<u>22,538,171</u>
 LIABILITIES:		
Accounts Payable		2,173
Accrued Wages and Benefits		407,038
Contracts Payable		147,200
Intergovernmental Payable		93,546
Unearned Revenue		915,415
Long-Term Liabilities:		
Due Within One Year		80,837
Due in More Than One Year		3,164,347
Total Liabilities		<u>4,810,556</u>
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		1,070,123
Restricted for Debt Service		103,175
Restricted for Capital Outlay		15,084,669
Restricted for Other Purposes		288,721
Unrestricted		1,180,927
Total Net Assets	\$	<u>17,727,615</u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
Instruction:					
Regular	\$ 2,054,272	\$ 237,221	\$ 112,578	\$ 1,361,275	(343,198)
Special	287,321		54,089		(233,232)
Vocational	102,710				(102,710)
Other	163,063				(163,063)
Support Services:					
Pupils	20,265		2,457		(17,808)
Instructional Staff	165,818		2,763		(163,055)
Board of Education	17,537				(17,537)
Administration	429,193				(429,193)
Fiscal	173,757				(173,757)
Business	60				(60)
Operation and Maintenance of Plant	269,198				(269,198)
Pupil Transportation	109,675				(109,675)
Central	87,916				(87,916)
Operation of Non-Instructional Services	175,627	126,043	1,117		(48,467)
Extracurricular Activities	215,254	112,433			(102,821)
Debt Service:					
Interest and Fiscal Charges	151,255				(151,255)
Totals	\$ 4,422,921	\$ 475,697	\$ 173,004	\$ 1,361,275	(2,412,945)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					821,262
Property Taxes, Levied for Capital Outlay					58,306
Property Taxes, Levied for Debt Service					209,778
Property Taxes, Levied for Other					14,235
Income Taxes					441,430
Grants and Entitlements not Restricted to Specific Programs					2,194,690
Gifts and Donations					11,331
Investment Earnings					78,999
Miscellaneous					1,430
Total General Revenues					3,831,461
Change in Net Assets					1,418,516
Net Assets Beginning of Year, restated					16,309,099
Net Assets End of Year					\$ 17,727,615

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	<u>General Fund</u>	<u>OSFC Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,509,246	\$ 4,972,214	\$ 1,038,829	\$ 7,520,289
Materials and Supplies Inventory	12,279		626	12,905
Accrued Interest Receivable	15,319	54,172		69,491
Accounts Receivable			367	367
Interfund Receivable	7,500			7,500
Intergovernmental Receivable	22,610	11,038,220	22,591	11,083,421
Prepaid Items	3,276			3,276
Taxes Receivable	774,564		272,287	1,046,851
Income Taxes Receivable	150,750			150,750
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	94,715			94,715
Total Assets	\$ 2,590,259	\$ 16,064,606	\$ 1,334,700	\$ 19,989,565
Liabilities				
Current Liabilities:				
Accounts Payable	1,199	842	132	2,173
Accrued Wages and Benefits	375,613		31,425	407,038
Contracts Payable		147,200		147,200
Interfund Payable			7,500	7,500
Intergovernmental Payable	90,203		3,343	93,546
Deferred Revenue	691,018	11,090,568	225,904	12,007,490
Compensated Absences Payable	15,837			15,837
	1,173,870	11,238,610	268,304	12,680,784
Fund Balances				
Reserved:				
Reserved for Encumbrances	27,140	1,246,699	53,975	1,327,814
Reserved for Prepaid Items	3,276			3,276
Reserved for Property Taxes	124,137		38,884	163,021
Reserved for Textbooks and Instructional Mat	94,715			94,715
Unreserved, Undesignated, Reported in:				
General Fund	1,167,121			1,167,121
Special Revenue Funds			276,603	276,603
Debt Service Funds			72,157	72,157
Capital Projects Funds		3,579,297	624,777	4,204,074
Total Fund Balances	1,416,389	4,825,996	1,066,396	7,308,781
Total Liabilities and Fund Balances	\$ 2,590,259	\$ 16,064,606	\$ 1,334,700	\$ 19,989,565

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances	\$	7,308,781
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		2,556,106
Deferred Revenue do not provide financial resources are not reported as revenues in governmental fund.		11,092,075
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(2,950,000)	
Compensated Absences Payable	(295,184)	
Compensated Absences Payable - Less than one year	15,837	
		(3,229,347)
Net Assets of Governmental Activities	\$	17,727,615

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

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

	<u>General Fund</u>	<u>OSFC Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 803,896	\$	\$ 293,566	\$ 1,097,462
Income Tax	413,381			413,381
Intergovernmental	2,105,858	1,395,576	283,820	3,785,254
Interest	65,588	12,214	1,197	78,999
Tuition and Fees	235,790		772	236,562
Rent	659			659
Extracurricular Activities			112,433	112,433
Gifts and Donations	11,331			11,331
Customer Sales and Services			126,043	126,043
Miscellaneous	268		1,162	1,430
Total Revenues	<u>3,636,771</u>	<u>1,407,790</u>	<u>818,993</u>	<u>5,863,554</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,776,542		170,459	1,947,001
Special	219,063		64,680	283,743
Vocational	111,615			111,615
Other	163,063			163,063
Support Services:				
Pupils	16,147		143	16,290
Instructional Staff	169,001		2,825	171,826
Board of Education	17,537			17,537
Administration	427,167		6,931	434,098
Fiscal	166,696		6,763	173,459
Business	60			60
Operation and Maintenance of Plant	266,280		15,719	281,999
Pupil Transportation	120,031			120,031
Central	46,387		41,529	87,916
Operation of Non-Instructional Services	3,394		169,615	173,009
Extracurricular Activities	109,862		110,547	220,409
Capital Outlay	4,239	839,351	668	844,258
Debt Service:				
Principal			65,000	65,000
Interest			151,255	151,255
Total Expenditures	<u>3,617,084</u>	<u>839,351</u>	<u>806,134</u>	<u>5,262,569</u>
Excess of Revenues Over (Under) Expenditures	19,687	568,439	12,859	600,985
Fund Balance at Beginning of Year, restated	1,396,702	4,257,557	1,053,537	6,707,796
Fund Balance at End of Year	<u>\$ 1,416,389</u>	<u>\$ 4,825,996</u>	<u>\$ 1,066,396</u>	<u>\$ 7,308,781</u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ 600,985

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on 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 capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	908,330	
Depreciation	(200,857)	
		707,473

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

Intergovernmental	(56,285)	
Income Taxes	28,049	
Delinquent Property Taxes	6,119	
		(22,117)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

65,000

Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	25,642	
Compensated Absences Payable - Less than one year	15,837	
Compensated Absences Payable	25,696	
		67,175

Change in Net Assets of Governmental Activities		\$ <u><u>1,418,516</u></u>
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See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 764,801	\$ 764,801	\$ 762,212	(2,589)
Income Tax	411,200	411,200	390,508	(20,692)
Intergovernmental	2,215,696	2,239,336	2,209,114	(30,222)
Interest	80,000	80,000	59,435	(20,565)
Tuition and Fees	232,766	233,066	235,790	2,724
Rent	150	550	573	23
Gifts and Donations	9,000	9,760	11,331	1,571
Miscellaneous	2,200	2,200	353	(1,847)
Total Revenues	<u>3,715,813</u>	<u>3,740,913</u>	<u>3,669,316</u>	<u>(71,597)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,856,472	1,852,485	1,782,182	70,303
Special	17,280	312,782	218,812	93,970
Vocational	113,112	121,172	111,561	9,611
Other	145,784	163,359	163,359	-
Support Services:				
Pupils	112,229	170,042	132,863	37,179
Instructional Staff	169,780	201,353	163,795	37,558
Board of Education	24,207	31,207	16,157	15,050
Administration	423,761	435,385	405,295	30,090
Fiscal	199,404	198,404	159,483	38,921
Operation and Maintenance of Plant	325,860	313,379	268,612	44,767
Pupil Transportation	115,684	116,334	112,729	3,605
Central	52,190	52,430	46,346	6,084
Extracurricular Activities	122,578	122,578	121,037	1,541
Capital Outlay	2,150	4,260	4,239	21
Total Expenditures	<u>3,680,491</u>	<u>4,095,170</u>	<u>3,706,470</u>	<u>388,700</u>
Excess of Revenues Over (Under) Expenditures	<u>35,322</u>	<u>(354,257)</u>	<u>(37,154)</u>	<u>317,103</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures	13,950	-	-	-
Total Other Financing Sources and Uses	<u>13,950</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	49,272	(354,257)	(37,154)	317,103
Fund Balance (Deficit) at Beginning of Year	1,610,968	1,610,968	1,610,968	-
Prior Year Encumbrances Appropriated	1,966	1,966	1,966	-
Fund Balance (Deficit) at End of Year	<u>\$ 1,662,206</u>	<u>\$ 1,258,677</u>	<u>\$ 1,575,780</u>	<u>\$ 317,103</u>

See Accompanying Notes to the Basic Financial Statements

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>19,081</u>
Total Assets	<u>19,081</u>
Liabilities	
Current Liabilities:	
Undistributed Monies	<u>19,081</u>
Total Liabilities	\$ <u>19,081</u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Holgate Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Holgate Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 25 non-certified and 40 certified full-time teaching personnel who provide services to 504 students and other community members.

The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Holgate Community Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council (NBEC) Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus 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 General Fund and the Classroom Facilities Fund are the District's major governmental funds:

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

OSFC Fund – The OSFC fund is used to account for the revenues and expenditures related to the construction of new school buildings.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of agency funds which are used to account for student activities.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of 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.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases 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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the 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. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from 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, income taxes, grants, investment earnings, tuition, and student fees.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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 Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the function level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the Treasurer.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal 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 Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

During fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$65,588, the Classroom Facilities Fund amounted to \$12,214, and \$1,197 to other District funds.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis and recorded as an expenditure when consumed.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks.

I. Capital Assets

General capital assets are those assets not specifically related to activities. 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 on the fund financial statements.

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

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount, which comes due each period upon occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and special termination benefits 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 year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

M. Net Assets

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

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

N. Fund Balance Reserves and Designations

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

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

O. 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.

P. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24 "Accounting and Financial Reporting or Certain Grants and Other Financial Assistance" the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Classroom Facilities Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	\$1,375,662	\$4,257,557	\$922,847	\$6,556,066
GASB Statement 34 Adjustment				
Change in Fund Structure – Expendable Trust			122,422	122,422
Change in Fund Structure – Enterprise			2,937	2,937
Interpretation 6 Adjustments:				
Compensated Absences Payable	21,040		5,331	26,371
Adjusted Fund Balance	<u>\$1,396,702</u>	<u>\$4,257,557</u>	<u>\$1,053,537</u>	6,707,796
GASB 34 Adjustments:				
Deferred Revenue				11,113,192
Capital Assets				1,848,633
Long-Term Liabilities				<u>(3,361,522)</u>
Governmental Activities Net Assets at June 30, 2003				<u>\$16,309,099</u>

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	\$19,687
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	316,546
Accrued FY 2004, Not Yet Received in Cash	(284,001)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(540,279)
Accrued FY 2004, Not Yet Paid in Cash	479,073
Encumbrances Outstanding at Year End (Budget Basis)	(28,180)
Budget Basis	(\$37,154)

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawal 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 monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing 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 any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions, and
6. The State Treasurer's investment pool (STAR Ohio).

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$7,380,161 and the bank balance was \$7,411,763. Of the bank balance, \$400,000 was covered by Federal Depository Insurance and \$7,011,763 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging financial institution's trust department, but not in the District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name. Investments as of June 30, 2004 were as follows:

	Carrying Value	Fair Value
STAR Ohio	\$253,824	\$253,824

The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement No. 9	\$7,634,085	
Less Cash on Hand	(100)	
Investments:		
STAR Ohio	(253,824)	\$253,824
GASB Statement No. 3	\$7,380,161	\$253,824

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. 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 semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Henry County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$124,137 in the General Fund, \$27,543 in the Debt Service Fund, and \$11,341 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$69,911 in the General Fund, \$1,454 in the Special Revenue Fund, \$16,310 in the Debt Service Fund, and \$6,625 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$30,165,560	85%	\$30,328,970	84%
Industrial/Commercial	1,202,510	3%	1,365,030	4%
Public Utility	3,389,130	10%	3,333,530	9%
Tangible Personal	848,835	2%	961,498	3%
Total Assessed Value	<u>\$35,606,035</u>	<u>100%</u>	<u>\$35,989,028</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$43.20		\$43.20	

7. INCOME TAX

In 1991, the voters of the Holgate Local School District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2004, the District recorded income tax revenue of \$413,381 in the General Fund, of which \$150,750 is recorded as a receivable at June 30, 2004.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. RECEIVABLES

Receivables at June 30, 2004, consisted of property, accounts (rent and student fees), intergovernmental, and accrued interest. 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 year guarantee of federal funds

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General	\$22,610
Food Service	3,269
OSFC	11,038,220
Drug Free Schools	163
Title II-A	5,261
Miscellaneous Federal	13,898
Total Intergovernmental Receivables	\$11,083,421

9. CAPITAL ASSETS

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

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$262,357			\$262,357
Construction in Progress	516,848	878,135		1,394,983
Total Nondepreciable Capital Assets	779,205	878,135		1,657,340
Depreciable Capital Assets				
Land Improvements	208,035			208,035
Buildings and Building Improvements	3,749,580			3,749,580
Furniture, Fixtures, and Equipment	1,441,493	30,195	4,042	1,467,646
Vehicles	417,175			417,175
Books	337,412			337,412
Total Depreciable Capital Assets	6,153,695	30,195	4,042	6,179,848
Less Accumulated Depreciation				
Land Improvements	188,005			188,005
Buildings and Building Improvements	3,362,005	43,587		3,405,592
Furniture, Fixtures, and Equipment	1,063,739	99,097	4,042	1,158,794
Vehicles	232,233	40,067		272,300
Books	238,285	18,106		256,391
Total Accumulated Depreciation	5,084,267	200,857	4,042	5,281,082
Depreciable Capital Assets, Net	1,069,428	(170,662)		898,766
Governmental Activities Capital Assets, Net	\$1,848,633	\$707,473		\$2,556,106

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$197,119
Administration	2,597
Operation and Maintenance of Plant	969
Capital Outlay	172
Total Depreciation Expense	\$200,857

The District restated Capital Assets at the beginning of the year as follows due to errors:

Balance at June 30, 2003	\$7,058,302
Restatement	(125,402)
Balance, Restated	\$6,932,900

10. RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted for textbooks.

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$94,175

11. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully coinsured. Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council (NBEC) for the benefits offered to its employees, which includes health, dental, and life insurance. NBEC is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 18). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

12. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$85,335, \$78,872, and \$83,245, respectively; 61 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$33,000.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$308,003, \$291,653, and \$305,356, respectively; 85 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$46,380.

13. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 4.5% of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

14. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn 10 vacation days per year, however the accumulated leave cannot be used until after one year of service. Non-certified employees are permitted to carry over vacation leave.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 50 days.

15. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government – Wide Financial Statements:

	<u>Balance at 06/30/03</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/04</u>	<u>Amount Due In one Year</u>
School Construction Bonds	\$3,015,000	\$0	\$65,000	\$2,950,000	\$65,000
Pension Obligation	25,642	0	25,642	0	0
Compensated Absences	320,880	295,184	320,880	295,184	15,837
Total Long-Term Obligations	<u>\$3,361,522</u>	<u>\$295,184</u>	<u>\$411,522</u>	<u>\$3,245,184</u>	<u>\$80,837</u>

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

New School General Obligation Bonds - On April 15, 2002, the District issued \$3,069,000 in voted general obligation bonds for the purpose of constructing a new elementary and middle school. The bonds will be retired from the Debt Service Fund. The Bond issue consists of \$1,329,000 Serial Bonds with interest rates ranging from 2.60% to 4.7% and, \$1,740,000 Term Bonds ranging from 4.9% to 6.0%.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The District's voted legal debt margin was \$289,013 with an unvoted debt margin of \$35,989 at June 30, 2004. Principal and interest requirements to retire general obligation debt at June 30, 2004 are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$65,000	\$150,410	\$215,410
2006	70,000	148,428	218,428
2007	80,000	145,977	225,977
2008	85,000	142,938	227,938
2009	90,000	139,452	229,452
2010-2014	550,000	631,228	1,181,228
2015-2019	705,000	491,082	1,196,082
2020-2024	1,040,000	257,663	1,297,663
2025	265,000	13,912	278,912
Total	<u>\$2,950,000</u>	<u>\$2,121,090</u>	<u>\$5,071,090</u>

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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 the 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 acquisitions. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2003	\$86,602	
Current Year Set-aside Requirement	68,467	\$68,467
Current Year Offsets		(59,286)
Qualifying Disbursements	(60,354)	(29,139)
Total	<u>\$94,715</u>	<u>(\$19,958)</u>
Cash Balance Carried Forward to FY 2005	<u>\$94,715</u>	

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$65,544. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the educational service centers from the counties of Defiance, Fulton, Henry, and Williams; one representative from each of the city school districts; one representative from each of the exempted village school districts; and one additional representative from Fulton County educational service center. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

18. GROUP PURCHASING POOLS

A. Northern Buckeye Education Council's Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal year ending June 30, 2004 were \$335,342. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. Each year, the participating members pay an enrollment fee to the WCGRP to cover costs of administering the program. During fiscal year ending June 30, 2004, the District paid an enrollment fee of \$461 to WCGRP to cover costs of administering the program.

19. RELATED ORGANIZATION

Holgate Community Library - The Holgate Community Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Holgate Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Holgate Community Library, Leanna Waisner, Clerk/Treasurer, at 204 Railway Avenue, Holgate, Ohio 43527.

20. SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

21. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited**

The discussion and analysis of the Holgate Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

In total, net assets increased \$316,727.

General revenues accounted for \$4,089,065 or 85 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$737,095 or 15 percent of total revenues of \$4,826,160.

The District's major funds included the General Fund and the OSFC Capital Projects Fund. The General Fund had \$3,877,597 in revenues and \$3,939,907 in expenditures and other financing uses. The General Fund's balance decreased \$62,310 from the prior fiscal year. The OSFC Capital Projects Fund had \$7,941,591 in revenues and \$9,049,433 in expenditures. The OSFC Capital Projects Fund's balance decreased \$1,107,842 from the prior fiscal year.

The revenue generated from the Bond Retirement Debt Service Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the OSFC Capital Projects Fund are the only two major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the OSFC Capital Projects Fund. While the District uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005 compared to fiscal year 2004.

**Table 1
Net Assets
Governmental Activities**

	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$13,601,025	\$19,982,065
Capital Assets, Net	11,687,521	2,556,106
Total Assets	<u>25,288,546</u>	<u>22,538,171</u>
<u>Liabilities:</u>		
Current and Other Liabilities	4,067,854	1,565,372
Long-Term Liabilities	3,176,350	3,245,184
Total Liabilities	<u>7,244,204</u>	<u>4,810,556</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	9,802,521	1,070,123
Restricted	8,113,114	15,476,565
Unrestricted	1,128,707	1,180,927
Total	<u>\$18,044,342</u>	<u>\$17,727,615</u>

The primary decrease in current assets is related to the reduction of the receivable for the OSFC grant for amounts received during 2005. Current liabilities increased due to the issuance of notes payable of \$1,800,000. The increase in net assets was attributed to the OSFC Capital Projects Fund grant monies that were received during the fiscal year.

Table 2 reflects the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

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

	2005	2004
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$490,141	\$475,697
Operating Grants, Contributions and Interest	246,954	173,004
Capital Grants and Contributions		1,361,275
Total Program Revenues	<u>737,095</u>	<u>2,009,976</u>
General Revenues:		
Property Taxes	1,097,091	1,103,581
Income Taxes	468,609	441,430
Grants and Entitlements	2,300,996	2,194,690
Investment Earnings	213,735	78,999
Gifts and Donations	1,000	11,331
Miscellaneous	6,830	1,430
Accrued Interest on Issuance of Debt	804	
Total General Revenues	<u>4,089,065</u>	<u>3,831,461</u>
Total Revenues	<u>4,826,160</u>	<u>5,841,437</u>

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

<u>Expenses:</u>		
Instruction	2,558,069	2,607,366
Support Services:		
Pupils	164,708	20,265
Instructional Staff	179,646	165,818
Board of Education	12,909	17,537
Administration	438,540	429,193
Fiscal	147,352	173,757
Business	5,155	60
Operation and Maintenance of Plant	257,237	269,198
Pupil Transportation	145,378	109,675
Central	57,651	87,916
Non-Instructional	185,663	175,627
Extracurricular Activities	207,706	215,254
Interest and Fiscal Charges	149,419	151,255
Total Expenses	<u>4,509,433</u>	<u>4,422,921</u>
Increase in Net Assets	<u>\$316,727</u>	<u>\$1,418,516</u>

The increase in net assets was attributed to the OSFC Capital Projects Fund grant monies that were received during the fiscal year.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Instruction	\$2,558,069	\$2,106,103	\$2,607,366	\$843,203
Support Services:				
Pupils	164,708	164,708	20,265	17,808
Instructional Staff	179,646	179,646	165,818	163,055
Board of Education	12,909	12,909	17,537	17,537
Administration	438,540	434,071	429,193	429,193
Fiscal	147,352	147,352	173,757	173,757
Business	5,155	5,155	60	60
Operation and Maintenance of Plant	257,237	257,237	269,198	269,198
Pupil Transportation	145,378	145,378	109,675	109,675
Central	57,651	46,651	87,916	87,916
Non-Instructional	185,663	8,523	175,627	48,467
Extracurricular Activities	207,706	115,186	215,254	102,281
Interest and Fiscal Charges	149,419	149,419	151,255	151,255
Total Expenses	<u>\$4,509,433</u>	<u>\$3,772,338</u>	<u>\$4,422,921</u>	<u>\$2,412,945</u>

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 82 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 80 percent. The remaining 20 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the OSFC Capital Projects Fund. Total governmental funds had revenues of \$12,563,771 and expenditures of \$13,694,565. The net negative change of \$1,130,794 in fund balance for the year indicates that the District had difficulty in meeting current costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$4,111,944 while actual expenditures were \$3,949,223. The \$162,721 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$11,687,521 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2005, the District had \$2,885,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2024. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2005, the District's overall legal debt margin was \$416,975, with an un-voted debt margin of \$36,689.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The District is holding its own in the state of a declining economy and uncertainty in State funding. Holgate is a small rural community of 1,196 people located in Northwest Ohio. It has a number of small and medium businesses with agriculture having a contributing influence on the economy.

The District is currently operating in the first year of the state biennium budget. 49.7 percent of District revenue sources are from local funds, 47.93 percent from state funds, and the remaining 2.37 percent is from federal funds. The total expenditure per pupil was calculated at \$7,745.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005
Unaudited
(Continued)**

Over the past several years, the District has remained in a good financial position. In March 2004, the District passed a five-year emergency renewal levy to generate \$91,000 annually and a five-year permanent improvement renewal levy to generate \$60,000 annually. These levies provide a source of funds for the financial operations and stability of the District along with school improvements. However, future finances are not without challenges as our community changes and state funding is revised. Some of these challenges are in the future of state funding for schools in light of the DeRolph court case and the long term effects of public utility deregulation, as well as the reduction of personal property for business inventory.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Amy Dietrich, Treasurer, Holgate Local School District, 103 Frazier Street, Holgate, Ohio 43527.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Net Assets
June 30, 2005**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	8,938,348
Materials and Supplies Inventory		12,915
Accrued Interest Receivable		1,553
Accounts Receivable		175
Intergovernmental Receivable		3,293,561
Prepaid Items		3,053
Taxes Receivable		1,066,488
Income Taxes Receivable		204,300
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents		80,632
Non-Depreciable Capital Assets		10,870,856
Depreciable Capital Assets, net		816,665
Total Assets		<u>25,288,546</u>
 LIABILITIES:		
Accounts Payable		11,512
Accrued Wages and Benefits		428,220
Contracts Payable		841,345
Intergovernmental Payable		94,699
Deferred Revenue		887,234
Notes Payable		1,800,000
Compensated Absences Payable		4,844
Long-Term Liabilities:		
Due Within One Year		70,000
Due in More Than One Year		3,106,350
Total Liabilities		<u>7,244,204</u>
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		8,802,521
Restricted for Debt Service		118,948
Restricted for Capital Outlay		7,682,414
Restricted for Other Purposes		311,752
Unrestricted		1,128,707
Total Net Assets	\$	<u>18,044,342</u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 1,992,367	\$ 273,800	\$ 113,427	\$ (1,605,140)
Special	294,585		64,147	(230,438)
Vocational	91,028		592	(90,436)
Other	180,089			(180,089)
Support Services:				
Pupils	164,708			(164,708)
Instructional Staff	179,646			(179,646)
Board of Education	12,909			(12,909)
Administration	438,540	4,469		(434,071)
Fiscal	147,352			(147,352)
Business	5,155			(5,155)
Operation and Maintenance of Plant	257,237			(257,237)
Pupil Transportation	145,378			(145,378)
Central	57,651		11,000	(46,651)
Operation of Non-Instructional Services	185,663	119,352	57,788	(8,523)
Extracurricular Activities	207,706	92,520		(115,186)
Debt Service:				
Interest and Fiscal Charges	149,419			(149,419)
Totals	\$ 4,509,433	\$ 490,141	\$ 246,954	(3,772,338)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				813,886
Property Taxes, Levied for Capital Outlay				56,476
Property Taxes, Levied for Debt Service				209,922
Property Taxes, Levied for Other				16,807
Income Taxes				468,609
Grants and Entitlements not Restricted to Specific Programs				2,300,996
Gifts and Donations				1,000
Investment Earnings				213,735
Miscellaneous				6,830
Accrued Interest Received on Debt Issuance				804
Total General Revenues				4,089,065
Change in Net Assets				316,727
Net Assets Beginning of Year				17,727,615
Net Assets End of Year				\$ 18,044,342

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General Fund</u>	<u>OSFC Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,490,747	\$ 6,358,897	\$ 1,088,704	\$ 8,938,348
Materials and Supplies Inventory	12,158		757	12,915
Accrued Interest Receivable	1,363	190		1,553
Accounts Receivable	175			175
Interfund Receivable	7,500			7,500
Intergovernmental Receivable		3,273,220	20,341	3,293,561
Prepaid Items	2,641	412		3,053
Taxes Receivable	785,266		281,222	1,066,488
Income Taxes Receivable	204,300			204,300
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	80,632			80,632
Total Assets	\$ 2,584,782	\$ 9,632,719	\$ 1,391,024	\$ 13,608,525
Liabilities				
Current Liabilities:				
Accounts Payable	5,302		6,210	11,512
Accrued Wages and Benefits	401,204		27,016	428,220
Contracts Payable		841,345		841,345
Interfund Payable			7,500	7,500
Intergovernmental Payable	91,256		3,443	94,699
Deferred Revenue	728,097	3,273,220	241,101	4,242,418
Notes Payable		1,800,000		1,800,000
Compensated Absences Payable	4,844			4,844
	1,230,703	5,914,565	285,270	7,430,538
Fund Balances				
Reserved:				
Reserved for Encumbrances	26,577	203,167	14,552	244,296
Reserved for Prepaid Items	2,641	412		3,053
Reserved for Property Taxes	111,395		36,797	148,192
Reserved for Textbooks and Inst. Materials	80,632			80,632
Unreserved, Undesignated, Reported in:				
General Fund	1,132,834			1,132,834
Special Revenue Funds			295,594	295,594
Debt Service Funds			87,454	87,454
Capital Projects Funds		3,514,575	671,357	4,185,932
Total Fund Balances	1,354,079	3,718,154	1,105,754	6,177,987
Total Liabilities and Fund Balances	\$ 2,584,782	\$ 9,632,719	\$ 1,391,024	\$ 13,608,525

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances	\$	6,177,987
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		11,687,521
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		3,355,184
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(2,885,000)	
Compensated Absences Payable	<u>(291,350)</u>	
		<u>(3,176,350)</u>
Net Assets of Governmental Activities	\$	<u><u>18,044,342</u></u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	<u>General Fund</u>	<u>OSFC Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 806,011	\$	\$ 280,712	\$ 1,086,723
Income Tax	454,391			454,391
Intergovernmental	2,307,727	7,765,000	236,700	10,309,427
Interest	35,209	176,591	1,935	213,735
Tuition and Fees	273,095		424	273,519
Rent	281			281
Extracurricular Activities			96,989	96,989
Gifts and Donations			1,000	1,000
Customer Sales and Services			119,352	119,352
Miscellaneous	883		5,947	6,830
Total Revenues	<u>3,877,597</u>	<u>7,941,591</u>	<u>743,059</u>	<u>12,562,247</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,876,179		77,765	1,953,944
Special	227,180		66,689	293,869
Vocational	91,545		592	92,137
Other	180,089			180,089
Support Services:				
Pupils	163,721		162	163,883
Instructional Staff	174,374		4,532	178,906
Board of Education	12,909			12,909
Administration	448,569		6,047	454,616
Fiscal	140,189		6,861	147,050
Business	3,584		1,571	5,155
Operation and Maintenance of Plant	246,461		9,471	255,932
Pupil Transportation	203,508			203,508
Central	46,652		10,999	57,651
Operation of Non-Instructional Services	2,533		182,918	185,451
Extracurricular Activities	121,694		86,012	207,706
Capital Outlay		9,049,433	37,187	9,086,620
Debt Service:				
Principal			65,000	65,000
Interest			149,419	149,419
Total Expenditures	<u>3,939,187</u>	<u>9,049,433</u>	<u>705,225</u>	<u>13,693,845</u>
Excess of Revenues Over (Under) Expenditures	<u>(61,590)</u>	<u>(1,107,842)</u>	<u>37,834</u>	<u>(1,131,598)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In			720	720
Transfers Out	(720)			(720)
Accrued Interest Received on Debt Issuance			804	804
Total Other Financing Sources and Uses	<u>(720)</u>	<u></u>	<u>1,524</u>	<u>804</u>
Net Change in Fund Balances	<u>(62,310)</u>	<u>(1,107,842)</u>	<u>39,358</u>	<u>(1,130,794)</u>
Fund Balance (Deficit) at Beginning of Year	1,416,389	4,825,996	1,066,396	7,308,781
Fund Balance (Deficit) at End of Year	<u>\$ 1,354,079</u>	<u>\$ 3,718,154</u>	<u>\$ 1,105,754</u>	<u>\$ 6,177,987</u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ (1,130,794)

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on 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 capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	9,319,211	
Depreciation	(181,280)	
	<u>9,137,931</u>	9,137,931

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets		(6,516)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	(7,761,477)	
Income Taxes	14,218	
Delinquent Property Taxes	10,368	
	<u>(7,736,891)</u>	(7,736,891)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

65,000

Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Compensated Absences Payable	(12,003)	
	<u>(12,003)</u>	(12,003)

Change in Net Assets of Governmental Activities

316,727

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 760,085	760,085	818,170	\$ 58,085
Income Tax	390,507	402,087	415,059	12,972
Intergovernmental	2,216,149	2,348,890	2,330,337	(18,553)
Interest	60,000	60,000	49,165	(10,835)
Tuition and Fees	239,075	272,433	272,920	487
Rent	629	620	281	(339)
Gifts and Donations	9,800	9,800		(9,800)
Miscellaneous	100	88	861	773
Total Revenues	<u>3,676,345</u>	<u>3,854,003</u>	<u>3,886,793</u>	<u>32,790</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,874,790	1,867,913	1,862,041	5,872
Special	293,145	256,871	227,552	29,319
Vocational	81,453	99,442	97,171	2,271
Other	152,492	186,413	180,089	6,324
Support Services:				
Pupils	191,622	184,004	157,370	26,634
Instructional Staff	183,829	186,638	181,100	5,538
Board of Education	12,634	14,714	13,409	1,305
Administration	472,915	472,108	456,392	15,716
Fiscal	141,751	145,004	142,201	2,803
Business	6,600	6,600	4,101	2,499
Operation and Maintenance of Plant	313,100	322,708	274,146	48,562
Pupil Transportation	138,386	206,216	198,371	7,845
Central	52,971	52,921	46,676	6,245
Extracurricular Activities				
Academic Oriented Activities	14,498	15,031	14,492	539
Sport Oriented Activities	87,842	92,320	91,075	1,245
School and Public Service Co-Curricular Act	2,321	2,321	2,317	4
Total Expenditures	<u>4,020,349</u>	<u>4,111,224</u>	<u>3,948,503</u>	<u>162,721</u>
Excess of Revenues Over (Under) Expenditures	<u>(344,004)</u>	<u>(257,221)</u>	<u>(61,710)</u>	<u>195,511</u>
Other Financing Sources and Uses:				
Refund of Prior Year Expenditures		22	22	
Transfers Out		(720)	(720)	
Total Other Financing Sources and Uses		<u>22</u>	<u>22</u>	
Net Change in Fund Balances		(257,199)	(61,688)	195,511
Fund Balance (Deficit) at Beginning of Year	1,575,780	1,575,780	1,575,780	
Prior Year Encumbrances Appropriated	28,180	28,180	28,180	
Fund Balance (Deficit) at End of Year	<u>\$ 1,603,960</u>	<u>\$ 1,346,761</u>	<u>\$ 1,542,272</u>	<u>\$ 195,511</u>

See Accompanying Notes to the Basic Financial Statements

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>20,069</u>
Total Assets	<u>20,069</u>
Liabilities	
Current Liabilities:	
Undistributed Monies	<u>20,069</u>
Total Liabilities	\$ <u>20,069</u>

See Accompanying Notes to the Basic Financial Statements

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Holgate Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Holgate Local School District is a city school district as defined by §3311.22 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's seven instructional/support facilities staffed by 25 non-certified and 40 certified full-time teaching personnel who provide services to 506 students and other community members.

The Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Holgate Community Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, the Northern Buckeye Education Council (NBEC) Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statement of net assets presents the financial condition of the governmental activities of the District at

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus 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 General Fund and the Classroom Facilities Fund are the District's major governmental funds:

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

Classroom Facilities Fund - The Classroom Facilities Fund is used to account for the revenues and expenditures related to the construction of new school buildings.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of agency funds.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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 District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of 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.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases 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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the 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. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from 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, income taxes, grants, investment earnings, tuition, and student fees.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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 Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the function level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education. Budgetary allocations at the object level within the General Fund and the function and object level in all other funds are made by the Treasurer.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal 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 Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

During fiscal year 2005, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$35,209, the Classroom Facilities Fund amounted to \$176,591, and \$1,935 to other District funds.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Inventory

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

On the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks.

I. Capital Assets

General capital assets are those assets not specifically related to activities. 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 on the fund financial statements.

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

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

M. Net Assets

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

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

N. Fund Balance Reserves and Designations

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

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

O. Interfund Assets/Liabilities

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

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

P. 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.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Q. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

3. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance Major Governmental Fund	
GAAP Basis	(\$62,310)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	272,225
Accrued FY 2005, Not Yet Received in Cash	(263,029)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(467,297)
Accrued FY 2005, Not Yet Paid in Cash	487,829
Transfers Net	720
Encumbrances Outstanding at Year End (Budget Basis)	(29,826)
Budget Basis	<u><u>(\$61,688)</u></u>

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board 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 monies 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 held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

At year end, the District had \$100 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$9,664,102 of the District's bank balance of \$10,464,102 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. 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 semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Henry County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

finance fiscal year 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2005, was \$111,395 in the General Fund, \$26,263 in the Debt Service Fund, and \$10,534 in the Capital Projects Fund. The amount available as an advance at June 30, 2004, was \$124,137 in the General Fund, \$27,543 in the Debt Service Fund, and \$11,341 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$30,328,970	84%	\$31,266,470	85%
Industrial/Commercial	1,365,030	4%	1,358,460	4%
Public Utility	3,333,530	9%	3,054,480	8%
Tangible Personal	961,498	3%	1,009,205	3%
Total Assessed Value	\$35,989,028	100%	\$36,688,615	100%
Tax rate per \$1,000 of assessed valuation	\$43.20		\$43.40	

6. INCOME TAX

In 1991, the voters of the Holgate Local School District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2005, the District recorded income tax revenue of \$454,391 in the General Fund, of which \$204,300 is recorded as a receivable at June 30, 2005.

7. RECEIVABLES

Receivables at June 30, 2005, consisted of property, accounts (rent and student fees), intergovernmental, and accrued interest. 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 year guarantee of federal funds

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
OSFC Grant	\$3,273,220
Student Intervention	\$3,698
Miscellaneous Federal	16,643
Total Intergovernmental Receivables	\$3,293,561

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$262,357			\$262,357
Construction in Progress	1,394,983	\$9,213,516		10,608,499
Total Nondepreciable Capital Assets	<u>1,657,340</u>	<u>9,213,516</u>		<u>10,870,856</u>
Depreciable Capital Assets				
Land Improvements	208,035	35,229		243,264
Buildings and Building Improvements	3,749,580			3,749,580
Furniture, Fixtures, and Equipment	1,467,646	10,066	\$71,699	1,406,013
Vehicles	417,175	60,400	29,287	448,288
Books	337,412			337,412
Total Depreciable Capital Assets	<u>6,179,848</u>	<u>105,695</u>	<u>100,986</u>	<u>6,184,557</u>
Less Accumulated Depreciation				
Land Improvements	188,005			188,005
Buildings and Building Improvements	3,405,592	43,573		3,449,165
Furniture, Fixtures, and Equipment	1,158,794	102,296	65,183	1,195,907
Vehicles	272,300	35,411	29,287	278,424
Books	256,391			256,391
Total Accumulated Depreciation	<u>5,281,082</u>	<u>181,280</u>	<u>94,470</u>	<u>5,367,892</u>
Depreciable Capital Assets, Net	<u>898,766</u>	<u>(75,585)</u>	<u>6,516</u>	<u>816,665</u>
Governmental Activities Capital Assets, Net	<u>\$2,556,106</u>	<u>\$9,137,931</u>	<u>\$6,516</u>	<u>\$11,687,521</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$5,363
Vocational	90
Instructional Staff	475
Administration	111
Operation and Maintenance of Plant	772
Pupil Transportation	1,510
Capital Outlay	<u>172,959</u>
Total Depreciation Expense	<u>\$181,280</u>

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted for various purposes.

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$80,632

10. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully coinsured. Settled claims have not exceeded this commercial coverage in any of the past three years. There was no significant reduction in coverage from the prior year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council (NBEC) for the benefits offered to its employees, which includes health, dental, and life insurance. NBEC is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 17). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$76,170, \$85,335, and \$78,872, respectively; 56 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$33,257.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$316,834, \$308,003, and \$291,653, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$49,556.

12. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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

The number of participants currently receiving health care benefits is approximately 62,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .35072, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn 10 vacation days per year. Administrators and the Treasurer may accrue to a maximum of 30 days.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 50 days.

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	Balance at 06/30/04	Increase	Decrease	Balance at 06/30/05	Amount Due In one Year
School Construction Bonds	\$2,950,000		\$65,000	\$2,885,000	\$70,000
Compensated Absences	295,184	\$291,350	295,184	291,350	
Total Long-Term Obligations	<u>\$3,245,184</u>	<u>\$291,350</u>	<u>\$360,184</u>	<u>\$3,176,350</u>	<u>\$70,000</u>

New School General Obligation Bonds - On April 15, 2002, the District issued \$3,069,000 in voted general obligation bonds for the purpose of constructing a new elementary and middle school. The bonds will be retired from the Bond Retirement Debt Service Fund. The bond issue consists of \$1,329,000 Serial Bonds with interest rates ranging from 2.60% to 4.7% and \$1,740,000 Term Bonds ranging from 4.9% to 6.0%.

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Principal and interest requirements to retire general obligation debt at June 30, 2005 are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$70,000	\$148,428	\$218,428
2007	80,000	145,977	225,977
2008	85,000	142,938	227,938
2009	90,000	139,452	229,452
2010	100,000	135,628	235,628
2011-2015	570,000	606,442	1,176,442
2016-2020	760,000	454,753	1,214,753
2021-2025	1,130,000	197,062	1,327,062
Total	<u>\$2,885,000</u>	<u>\$1,970,680</u>	<u>\$4,855,680</u>

15. SHORT-TERM OBLIGATIONS

In June 2005, the School District issued bond anticipation notes in the amount of \$1,800,000 for the purpose of school construction. The notes bear interest rate of 4% and mature in January 2006. Subsequent to year-end, these notes were refinanced.

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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 the 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 acquisitions. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2004	\$94,715	
Current Year Set-aside Requirement	66,716	\$66,716
Qualifying Disbursements	(80,799)	(155,645)
Total	<u>\$80,632</u>	<u>(\$88,929)</u>
Cash Balance Carried Forward to FY 2006	<u>\$80,632</u>	<u>(\$88,929)</u>

17. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$54,387. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the educational service centers from the counties of Defiance, Fulton, Henry, and Williams; one representative from each of the city school districts; one representative from each of the exempted village school districts; and one additional representative from Fulton County educational service center. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

18. GROUP PURCHASING POOLS

A. Northern Buckeye Education Council's Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during fiscal year ending June 30, 2005 were \$382,943. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. NBEC Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. Each year, the participating members pay an enrollment fee to the WCGRP to cover costs of administering the program. During fiscal year ending June 30, 2005, the District paid an enrollment fee of \$484 to WCGRP to cover costs of administering the program.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid for those services to SORSA during fiscal year 2005.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. Willis Pooling administers the pool and Frank Gates Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

19. RELATED ORGANIZATION

Holgate Community Library - The Holgate Community Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Holgate Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Holgate Community Library, Leanna Waisner, Clerk/Treasurer, at 204 Railway Avenue, Holgate, Ohio 43527.

20. SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

21. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 District at June 30, 2005.

B. Litigation

There are currently no matters in litigation with the District as defendant.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Holgate Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holgate Local School District (the School District), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 14, 2006 wherein we noted that the District implemented Governmental Accounting Standards Board Statements 34, 37, 38, and 40, Governmental Accounting Standards Board Interpretation 6 and Governmental Accounting Standards Board Technical Bulletin 2004-2.. We conducted our audits 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

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

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005-1 through 2005-3.

We also noted certain matters that we reported to management of the School District in a separate letter dated September 14, 2006.

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

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
September 14, 2006

HOLGATE LOCAL SCHOOL DISTRICT

Schedule of Findings and Responses

Years Ended June 30, 2005 and 2004

NONCOMPLIANCE

2005-1 Appropriations

Ohio Revised Code, Section 5705.39, provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or mended official estimate. The School District did approve appropriations and modifications throughout fiscal year 2005 and fiscal year 2004; however, these appropriations were not certified by the County Auditor.

Management response – Management concurs.

2005-2 Encumbering

Ohio Revised Code Section, 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Education can authorize the drawing of a warrant. The Board of Education has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the School District.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the Board of Education upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board of Education.

As part of our testing over non-payroll cash disbursements, we selected a sample of eighty (80) cash disbursements from throughout the year. Our test indicated that thirty-seven (37) items did not have certification prior to the obligation date and neither of the two exceptions provided above were utilized.

Management response – Management concurs.

2005-3 Disposal of Personal Property

Ohio Revised Code Section, 3313.41 stipulates that when a board of education decides to dispose of personal property that it owns in its corporate capacity, and that exceeds in value \$10,000, it shall sell the property at public auction, after giving at least thirty days' notice of the auction by publication in a newspaper of general circulation or by posting notices in five of the most public places in the School District.

Subsequent to June 30, 2005, the School District elected to sell personal property. Prior to the sale, an auctioneer priced the items and the sale was advertised as fixed price sale and no bartering would take place. The School District sold items for approximately \$25,000 during this sale. After the sale, the remaining unsold items were sold at auction. The fixed price sale of items is contrary to the requirements of ORC Section 3313.41 which requires the public auction of items exceeding \$10,000 in value.

Management response – The Holgate Local School District put forth a good faith effort in conducting both a fixed price sale and a silent auction on two different dates in May of 2006. Our belief was reasonable that the value of the sale(s) would not exceed \$10,000.



**Auditor of State
Betty Montgomery**

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800-282-0370

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HOLGATE LOCAL SCHOOL DISTRICT

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 7, 2006**