

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
FINANCIAL STATEMENTS
Year Ended June 30, 2007



Mary Taylor, CPA

Auditor of State

Board of Education
Holgate Local School District
801 E. Joe E Brown Avenue
Holgate, Ohio 43527

We have reviewed the *Independent Auditor's Report* of the Holgate Local School District, Henry County, prepared by Steyer & Co., for the audit period July 1, 2006 through June 30, 2007. 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.

Finding for Recovery

Ohio Revised Code § 9.38 requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt.

This section also stipulates that if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

Additionally, Ohio Revised Code § 9.39 states that all "public officials are liable for all public money received or collected by them or by their subordinates under color of office. "Public Official," for these purposes means "any officer, employee, or duly authorized representative or agent of a public office." ORC §§ 9.38, 117.01(E).

In fiscal year 2007, former Assistant Treasurer, Lori Ann Olds, wrote 31 receipts that totaled \$919.99. These funds were never deposited with the Treasurer or the District's public depository. As an assistant treasurer, Ms. Olds is a "public official" for these purposes, and thus liable for such monies.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

In accordance with the foregoing facts, and pursuant to the ORC § 117.28, a Finding for Recovery for public money collected, but not accounted for is hereby issued against Lori Ann Olds, former Assistant Treasurer, her bonding company, the Northwest Ohio Educational Council Self Insurance Pool Program, Lisa Shanks, School Treasurer, and The Westfield Insurance Company, her bonding company jointly and severally, in the total amount of \$919.99, in favor of the District's General Fund for \$919.99.

Lisa Shanks, Treasurer, shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Lori Ann Olds, former Assistant Treasurer.

Finding for Recovery Repaid Under Audit

The Holgate Local School District Master Agreement provides reimbursement to teachers for tuition incurred through professional continuing education. The procedures allow that any particular teacher may be reimbursed for such tuition costs up to a maximum of six semester hours per fiscal year.

In 2006, Caroline Grim, teacher, was reimbursed for nine semester hours, with a total reimbursement of \$2,835.00. As stated above, the Master Agreement only allows reimbursement for six semester hours per year. This resulted in an overpayment of \$945.00 to Caroline Grim.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Caroline Grim, Teacher, in the amount of \$945.00 and in favor of the Holgate Local School District General Fund.

On November 20, 2007, Caroline Grim repaid the District in the amount of \$945.00.

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.



Mary Taylor, CPA
Auditor of State

March 10, 2008

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Holgate Local School District
Holgate, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holgate Local School District, Henry County, Ohio, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holgate Local School District, as of June 30, 2007, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007, on our consideration of Holgate Local 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 8 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.

A handwritten signature in black ink that reads "Steyer & Co." in a cursive script.

STEYER & CO.
Certified Public Accountants

Defiance, Ohio
December 13, 2007

**HOLGATE LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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, 2007. 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 2007 are as follows:

In total, net assets decreased \$1,825,992.

General revenues accounted for \$4,585,079 or 80 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,116,974 or 20 percent of total revenues of \$5,702,053.

The District's major funds included the General Fund, the Bond Retirement Fund, the Permanent Improvement Fund, the Land Acquisition/Local Fund, and the OSFC Fund. The General Fund had \$4,442,048 in revenues and other funding sources and \$4,350,951 in expenditures. The General Fund's balance increased \$91,097 from the prior fiscal year.

The Bond Retirement Fund had \$327,406 in revenues and \$326,890 in expenditures. The Bond Retirement Fund's balance increased \$516 from the prior fiscal year.

The Permanent Improvement Fund had \$64,969 in revenues and \$104,174 in expenditures. The Permanent Improvement Fund's balance decreased \$39,205 from the prior fiscal year.

The Land Acquisition/Local Fund had \$23,825 in revenues and \$689,488 in expenditures. The Land Acquisition Fund's balance decreased \$665,663 from the prior fiscal year.

The OSFC Fund had \$186,736 in revenues and \$781,842 in expenditures. The OSFC Fund's balance decreased \$595,106 from the prior fiscal year.

The revenue generated from the Bond Retirement 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 Holgate Local School 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.

**HOLGATE LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

For Holgate Local School District, the General Fund is by far the most significant fund. The General Fund, the Bond Retirement Fund, the Permanent Improvement Fund, the Land Acquisition/Local Fund, and the OSFC Funds are the five 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 2007. 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. 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, the Bond Retirement Fund, the Permanent Improvement Fund, the Land Acquisition/Local Fund, and the OSFC 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.

**HOLGATE LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

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.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2007 compared to fiscal year 2006.

**Table 1
Net Assets
Governmental Activities**

<u>Assets:</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 4,401,079	\$ 5,651,608
Capital Assets, Net	<u>18,582,161</u>	<u>19,340,980</u>
Total Assets	22,983,240	24,992,588
 <u>Liabilities:</u>		
Current and Other Liabilities	1,495,008	1,595,708
Long-Term Liabilities	<u>4,844,395</u>	<u>4,927,051</u>
Total Liabilities	6,339,403	6,522,759
 <u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	14,053,161	14,725,980
Restricted	1,129,665	2,398,580
Unrestricted	<u>1,461,011</u>	<u>1,345,269</u>
Total Net Assets	<u>\$ 16,643,837</u>	<u>\$ 18,469,829</u>

The decrease in Capital Assets, Net, the decrease in Current and Other Assets, and the decrease in Current and Other Liabilities were attributed to depreciation and the OSFC construction project.

**HOLGATE LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

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

<u>Revenues:</u>	<u>2007</u>	<u>2006</u>
Program Revenues:		
Charges for Services and Sales	\$ 546,908	\$ 589,917
Operating Grants and Contributions	<u>570,066</u>	<u>368,572</u>
Total Program Revenues	1,116,974	958,489
General Revenues:		
Property Taxes	1,095,635	1,133,527
Income Taxes	698,077	650,507
Grants and Entitlements	2,421,418	2,021,106
Gifts and Donations	10,984	15,978
Investment Earnings	168,210	331,949
Miscellaneous	189,030	61,294
Accrued Interest on Issuance of Debt	-	258
Proceeds from Sale of Capital Assets	<u>1,725</u>	<u>-</u>
Total General Revenues	<u>4,585,079</u>	<u>4,214,619</u>
Total Revenues	5,702,053	5,173,108
<u>Expenses:</u>		
Instruction	3,652,449	2,322,037
Support Services:		
Pupils	212,921	155,505
Instructional Staff	178,073	219,617
Board of Education	15,078	15,595
Administration	468,395	496,134
Fiscal	149,973	142,285
Business	7,655	5,821
Operation and Maintenance of Plant	322,040	355,834
Pupil Transportation	153,263	251,845
Central	55,293	57,635
Operation of Non-Instructional Services	219,125	263,735
Extracurricular Activities	298,515	215,072
Capital Outlay	1,561,570	-
Interest and Fiscal Charges	<u>233,695</u>	<u>246,506</u>
Total Expenses	<u>7,528,045</u>	<u>4,747,621</u>
Increase (decrease) in Net Assets	<u>\$ (1,825,992)</u>	<u>\$ 425,487</u>

The increase in revenues was attributed to increases in program revenues, income taxes, and grants. The increase in expenses was due to increases in capital outlay.

**HOLGATE LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

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	Net Cost of	Total Cost	Net Cost of
	of Services	Services	of Services	Services
	2007	2007	2006	2006
Instruction	\$ 3,652,449	\$ 2,873,819	\$ 2,322,037	\$ 1,699,927
Support Services:				
Pupils	212,921	212,921	155,505	155,505
Instructional Staff	178,073	178,073	219,617	219,617
Board of Education	15,078	15,078	15,595	15,595
Administration	468,395	458,381	496,134	492,173
Fiscal	149,973	149,973	142,285	142,285
Business	7,655	7,655	5,821	5,821
Operation and Maintenance of				
Plant	322,040	322,040	355,834	355,834
Pupil Transportation	153,263	151,789	251,845	251,845
Central	55,293	50,293	57,635	46,635
Operation of Non-Instructional				
Services	219,125	4,349	263,735	70,262
Extracurricular Activities	298,515	191,435	215,072	87,127
Capital Outlay	1,561,570	1,561,570	-	-
Interest and Fiscal Charges	233,695	233,695	246,506	246,506
Total Expenses	<u>\$ 7,528,045</u>	<u>\$ 6,411,071</u>	<u>\$ 4,747,621</u>	<u>\$ 3,789,132</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 79 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 85 percent. The remaining 15 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, the Bond Retirement Fund, the Permanent Improvement Fund, the Land Acquisition/Local Fund, and the OSFC Fund. Total governmental funds had revenues of \$5,657,319 and expenditures of \$6,852,071. The net negative change of \$1,194,752 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 2007, the District amended its General Fund budget as needed.

**HOLGATE LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

Final expenditures were budgeted at \$4,730,987 while actual expenditures were \$4,324,032. The \$406,955 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 2007, the District had \$18,582,161 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, 2007, the District had \$4,529,000 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-nine year period, with final maturity on December 1, 2034. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2007, the District's overall legal debt margin was (\$1,111,429), with an un-voted debt margin of \$37,973.

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. 41.63 percent of District revenue sources are from local funds, 57.78 percent from state funds, and the remaining 0.59 percent is from federal funds. The total expenditure per pupil was calculated at \$8,163.

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 Lisa Shanks, Treasurer, Holgate Local School District, 801 E Joe E Brown Avenue, Holgate, Ohio 43527.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
STATEMENT OF NET ASSETS
June 30, 2007**

	<u>Governmental Activities</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 2,842,323
Materials and Supplies Inventory	21,753
Accrued Interest Receivable	27,008
Intergovernmental Receivable	25,673
Taxes Receivable	1,175,899
Income Taxes Receivable	283,298
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	25,125
Non-Depreciable Capital Assets	275,639
Depreciable Capital Assets, net	<u>18,306,522</u>
Total Assets	22,983,240
LIABILITIES	
Accounts Payable	5,684
Accrued Wages and Benefits	360,684
Contracts Payable	10,473
Intergovernmental Payable	103,207
Matured Compensated Absences Payable	12,920
Deferred Revenue	1,002,040
Long-Term Liabilities:	
Due Within One Year	100,000
Due in More Than One Year	<u>4,744,395</u>
Total Liabilities	6,339,403
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	14,053,161
Restricted for Debt Service	160,324
Restricted for Capital Outlay	624,122
Restricted for Other Purposes	345,219
Unrestricted	<u>1,461,011</u>
Total Net Assets	<u><u>\$ 16,643,837</u></u>

The accompanying notes are an integral part of these financial statements.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

		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	\$ 2,995,082	\$ 299,801	\$ 122,826	\$ (2,572,455)
Special	414,294	-	318,201	(96,093)
Vocational	73,251	-	37,802	(35,449)
Other	169,822	-	-	(169,822)
Support Services:				
Pupils	212,921	-	-	(212,921)
Instructional Staff	178,073	-	-	(178,073)
Board of Education	15,078	-	-	(15,078)
Administration	468,395	3,771	6,243	(458,381)
Fiscal	149,973	-	-	(149,973)
Business	7,655	-	-	(7,655)
Operation and Maintenance of Plant	322,040	-	-	(322,040)
Pupil Transportation	153,263	-	1,474	(151,789)
Central	55,293	-	5,000	(50,293)
Operation of Non-Instructional Services	219,125	136,256	78,520	(4,349)
Extracurricular Activities	298,515	107,080	-	(191,435)
Capital Outlay	1,561,570	-	-	(1,561,570)
DEBT SERVICE:				
Interest and Fiscal Charges	233,695	-	-	(233,695)
Totals	\$ 7,528,045	\$ 546,908	\$ 570,066	(6,411,071)
General Revenues:				
Taxes:				
				728,611
				58,641
				293,524
				14,859
				698,077
				2,421,418
				10,984
				168,210
				189,030
				1,725
				4,585,079
				(1,825,992)
				18,469,829
				\$ 16,643,837

The accompanying notes are an integral part of these financial statements.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>General Fund</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,753,864	\$ 114,000	\$ 491,855
Materials and Supplies Inventory	17,896	-	-
Accrued Interest Receivable	25,796	-	-
Interfund Receivable	12,504	26	5
Intergovernmental Receivable	-	-	-
Taxes Receivable	828,756	274,900	55,546
Income Taxes Receivable	283,298	-	-
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	<u>25,125</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 2,947,239</u>	<u>\$ 388,926</u>	<u>\$ 547,406</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 3,430	\$ -	\$ -
Accrued Wages and Benefits	350,541	-	-
Contracts Payable	-	-	-
Interfund Payable	2,269	-	80
Intergovernmental Payable	70,476	-	-
Matured Compensated Absences Payable	12,920	-	-
Deferred Revenue	<u>812,458</u>	<u>249,275</u>	<u>51,096</u>
Total Liabilities	<u>1,252,094</u>	<u>249,275</u>	<u>51,176</u>
FUND BALANCES			
Reserved for:			
Encumbrances	12,276	-	-
Inventory	17,896	-	-
Property Taxes	65,095	25,625	4,450
Textbooks and Instructional Materials	25,125	-	-
Unreserved, Undesignated, Reported in:			
General Fund	1,574,753	-	-
Special Revenue Funds	-	-	-
Debt Service Funds	-	114,026	-
Capital Projects Funds	-	-	491,780
Total Fund Balances	<u>1,695,145</u>	<u>139,651</u>	<u>496,230</u>
Total Liabilities and Fund Balances	<u>\$ 2,947,239</u>	<u>\$ 388,926</u>	<u>\$ 547,406</u>

The accompanying notes are an integral part of these financial statmenets.

Land Acquisition/ Local	OSFC Fund	All Other Governmental Funds	Total Governmental Funds
\$ 134,323	\$ -	\$ 348,281	\$ 2,842,323
-	-	3,857	21,753
1,212	-	-	27,008
-	-	2,238	14,773
-	-	25,673	25,673
-	-	16,697	1,175,899
-	-	-	283,298
-	-	-	25,125
<u>\$ 135,535</u>	<u>\$ -</u>	<u>\$ 396,746</u>	<u>\$ 4,415,852</u>
\$ 700	\$ -	\$ 1,554	\$ 5,684
-	-	10,143	360,684
10,473	-	-	10,473
-	-	12,424	14,773
-	-	1,903	72,379
-	-	-	12,920
-	-	18,067	1,130,896
<u>11,173</u>	<u>-</u>	<u>44,091</u>	<u>1,607,809</u>
68,091	-	6,609	86,976
-	-	3,857	21,753
-	-	1,694	96,864
-	-	-	25,125
-	-	-	1,574,753
-	-	340,495	340,495
-	-	-	114,026
56,271	-	-	548,051
<u>124,362</u>	<u>-</u>	<u>352,655</u>	<u>2,808,043</u>
<u>\$ 135,535</u>	<u>\$ -</u>	<u>\$ 396,746</u>	<u>\$ 4,415,852</u>

The accompanying notes are an integral part of these financial statmenets.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2007**

Total Governmental Fund Balances		\$ 2,808,043
<i>Amounts reported for governmental activities on the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		18,582,161
Taxes receivable that do not provide financial resources are not reported as revenues in governmental fund.		128,856
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(30,828)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General obligation bonds payable	(4,529,000)	
Compensated absences payable	(315,395)	
		(4,844,395)
<i>Net Assets of Governmental Activities</i>		<u>\$ 16,643,837</u>

The accompanying notes are an integral part of these financial statements.

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**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007**

	<u>General Fund</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>
REVENUES			
Property and Other Local Taxes	\$ 701,915	\$ 281,313	\$ 56,773
Income Tax	697,933	-	-
Intergovernmental	2,591,698	45,703	8,196
Interest	137,686	390	-
Tuition and Fees	299,187	-	-
Rent	380	-	-
Extracurricular Activities	-	-	-
Gifts and Donations	3,284	-	-
Customer Sales and Services	-	-	-
Miscellaneous	<u>8,240</u>	<u>-</u>	<u>-</u>
Total Revenues	4,440,323	327,406	64,969
EXPENDITURES			
Current:			
Instruction:			
Regular	2,244,981	-	-
Special	221,748	-	-
Vocational	71,509	-	-
Other	169,822	-	-
Support Services:			
Pupils	208,865	-	-
Instructional Staff	166,163	-	-
Board of Education	15,078	-	-
Administration	467,791	-	-
Fiscal	140,890	7,195	1,251
Business	7,655	-	-
Operation and Maintenance of Plant	301,777	-	-
Pupil Transportation	153,922	-	-
Central	50,396	-	-
Operation of Non-Instructional Services	-	-	-
Extracurricular Activities	130,354	-	-
Capital Outlay	-	-	102,923
Debt Service:			
Principal	-	86,000	-
Interest	<u>-</u>	<u>233,695</u>	<u>-</u>
Total Expenditures	<u>4,350,951</u>	<u>326,890</u>	<u>104,174</u>
Excess of Revenues Over (Under) Expenditures	89,372	516	(39,205)
OTHER FINANCING SOURCES AND USES			
Proceeds from Sale of Fixed Assets	<u>1,725</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>1,725</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	91,097	516	(39,205)
Fund Balance at Beginning of Year	<u>1,604,048</u>	<u>139,135</u>	<u>535,435</u>
Fund Balance at End of Year	<u>\$ 1,695,145</u>	<u>\$ 139,651</u>	<u>\$ 496,230</u>

The accompanying notes are an integral part of these financial statements.

Land Acquisition/ Local	OSFC Fund	All Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 14,082	\$ 1,054,083
-	-	-	697,933
-	-	342,849	2,988,446
16,125	11,665	2,344	168,210
-	-	234	299,421
-	-	-	380
-	-	110,851	110,851
7,700	-	-	10,984
-	-	136,256	136,256
-	<u>175,071</u>	<u>5,719</u>	<u>189,030</u>
<u>23,825</u>	<u>186,736</u>	<u>612,335</u>	<u>5,655,594</u>
-	-	49,656	2,294,637
-	-	191,903	413,651
-	-	-	71,509
-	-	-	169,822
-	-	207	209,072
-	-	-	166,163
-	-	-	15,078
-	-	9,081	476,872
-	-	374	149,710
-	-	-	7,655
12,683	-	2,028	316,488
-	-	-	153,922
-	-	4,897	55,293
-	-	200,865	200,865
-	-	139,715	270,069
676,805	781,842	-	1,561,570
-	-	-	86,000
-	-	-	<u>233,695</u>
<u>689,488</u>	<u>781,842</u>	<u>598,726</u>	<u>6,852,071</u>
(665,663)	(595,106)	13,609	(1,196,477)
-	-	-	<u>1,725</u>
-	-	-	<u>1,725</u>
(665,663)	(595,106)	13,609	(1,194,752)
<u>790,025</u>	<u>595,106</u>	<u>339,046</u>	<u>4,002,795</u>
<u>\$ 124,362</u>	<u>\$ -</u>	<u>\$ 352,655</u>	<u>\$ 2,808,043</u>

The accompanying notes are an integral part of these financial statements.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,194,752)
 <i>Amounts reported for governmental activities on the statement of activities are different because of the following:</i>	
 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.	
	(757,818)
 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.	
	(1,001)
 Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.	
	44,734
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.	
	86,000
 Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:	
	<u>(3,155)</u>
 <i>Change in Net Assets of Governmental Activities</i>	 <u>\$ (1,825,992)</u>

The accompanying notes are an integral part of these financial statements.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL COMPARISON
GENERAL FUND**

For the Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Property and Other Local Taxes	\$ 755,918	\$ 767,831	\$ 767,831	\$ -
Income Tax	589,000	680,573	680,573	-
Intergovernmental	2,359,000	2,444,046	2,591,698	147,652
Interest	70,000	127,643	137,416	9,773
Tuition and Fees	308,500	283,985	299,187	15,202
Rent	600	600	380	(220)
Gifts and Donations	2,000	3,284	3,284	-
Miscellaneous	<u>1,000</u>	<u>6,091</u>	<u>9,161</u>	<u>3,070</u>
Total Revenues	<u>4,086,018</u>	<u>4,314,053</u>	<u>4,489,530</u>	<u>175,477</u>
EXPENDITURES				
Current:				
Instruction:				
Regular	2,261,616	2,318,795	2,221,215	97,580
Special	243,850	289,890	221,753	68,137
Vocational	66,292	76,003	76,334	(331)
Other	167,000	168,000	169,822	(1,822)
Support Services:				
Pupils	194,296	210,155	206,811	3,344
Instructional Staff	168,722	179,168	165,459	13,709
Board of Education	16,692	16,093	15,078	1,015
Administration	475,166	488,533	465,115	23,418
Fiscal	146,560	158,053	140,368	17,685
Business	7,000	7,000	7,655	(655)
Operation and Maintenance of Plant	388,121	387,691	300,756	86,935
Pupil Transportation	229,145	241,145	153,333	87,812
Central	55,900	60,900	50,383	10,517
Extracurricular Activities	<u>122,371</u>	<u>129,561</u>	<u>129,950</u>	<u>(389)</u>
Total Expenditures	<u>4,542,731</u>	<u>4,730,987</u>	<u>4,324,032</u>	<u>406,955</u>
Excess of Revenues Over (Under) Expenditures	<u>(456,713)</u>	<u>(416,934)</u>	<u>165,498</u>	<u>582,432</u>
OTHER FINANCING SOURCES AND USES				
Transfers In	-	299	299	-
Proceeds from Sale of Capital Assets	2,000	2,000	1,725	(275)
Refund of Prior Year Expenditures	-	-	1,506	1,506
Transfers Out	-	(650)	(650)	-
Advances Out	<u>-</u>	<u>(4,924)</u>	<u>(4,924)</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>2,000</u>	<u>(3,275)</u>	<u>(2,044)</u>	<u>1,231</u>
Net Change in Fund Balances		(420,209)	163,454	583,663
Fund Balance at Beginning of Year	1,578,160	1,578,160	1,578,160	-
Prior Year Encumbrances Appropriated	<u>24,756</u>	<u>24,756</u>	<u>24,756</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,602,916</u>	<u>\$ 1,182,707</u>	<u>\$ 1,766,370</u>	<u>\$ 583,663</u>

The accompanying notes are an integral part of these financial statements.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007**

	<u>Agency Fund</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 16,764
Total Assets	<u>\$ 16,764</u>
LIABILITIES	
Undistributed Monies	\$ 16,764
Total Liabilities	<u>\$ 16,764</u>

The accompanying notes are an integral part of these financial statements.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007**

NOTE 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 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 one instructional/support facility staffed by 24 non-certified and 38 certified full-time teaching personnel who provide services to 533 students and other community members.

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, Northern Buckeye Education Council, Four County Career Center, Holgate Community Library, Northern Buckeye Education Council’s Employee Insurance Benefit Program, Northern Buckeye Education Council (NBEC) Workers’ Compensation Group Rating Plan, and Northwest Ohio Educational Council Self-Insurance Pool Program. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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 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 fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major 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, Bond Retirement Fund, Permanent Improvement Fund, Land Acquisition/Local Fund, and OSFC 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.

Bond Retirement Fund – The Bond Retirement Fund is used to account for property tax revenues to pay the principal and related interest on the school improvement bonds.

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Land Acquisition/Local Fund – The Land Acquisition/Local Fund is used to account for financial resources to be used for the acquisition of land.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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.

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.

Non-exchange 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.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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, 2007, but which were levied to finance fiscal year 2008 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 object 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 function 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.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. 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 2007 amounted to \$137,686, the Bond Retirement Fund amounted to \$390, the Land Acquisition/Local Fund amounted to \$16,125, the OSFC Fund amounted to \$11,665, and \$2,344 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.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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.

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	Useful Lives
Land Improvements	15 - 30 years
Buildings & 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.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

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, 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.

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, inventory, property taxes, textbooks and instructional materials.

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 Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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.

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.

**HOLGATE LOCAL SCHOOL DISTRICT
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R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

NOTE 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	
<u>GAAP Basis</u>	<u>\$ 91,097</u>
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2006, Received in Cash FY 2007	373,241
Accrued FY 2007, Not Yet Received in Cash	(324,684)
Expenditure Accruals:	
Accrued FY 2006, Paid in Cash FY 2007	(381,838)
Accrued FY 2007, Not Yet Paid in Cash	422,837
Advances-Net	(4,924)
Encumbrances Outstanding at Year End (Budget Basis)	<u>(12,275)</u>
Budget Basis	<u>\$ 163,454</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District 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.

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

Interim deposits are deposits of interim monies. 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and 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 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited.

HOLGATE LOCAL SCHOOL DISTRICT
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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 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.

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$2,884,212. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$2,590,086 of the District's bank balance of \$2,990,086 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or 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.

All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2007, the District did not have any investments.

Interest Rate Risk – The District has an investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

Credit Risk – Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to twenty five percent of the interim monies available for investment at any one time.

HOLGATE LOCAL SCHOOL DISTRICT
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D. Reconciliation of Cash to the Statement of Net Assets

The following is a reconciliation of cash as reported in the footnote above to cash as reported on the statement of net assets as of June 30, 2007:

<u>Cash per footnote</u>	
Carrying amount of deposits	\$ 2,884,212
Total	<u>\$ 2,884,212</u>
 <u>Cash per Statement of Net Assets</u>	
Governmental activities	\$ 2,867,448
Agency fund	<u>16,764</u>
Total	<u>\$ 2,884,212</u>

NOTE 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 2007 represent the collection of calendar year 2006 taxes. Real property taxes for 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, 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 2007 were levied after April 1, 2006, on the assessed values as of December 31, 2005, 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 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes for 2007 were levied after April 1, 2006, on the value as of December 31, 2005. 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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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, 2007 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 2007 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, 2007, was \$65,095 in the General Fund, \$1,694 in the OSFC Fund, \$25,625 in the Bond Retirement Fund, and \$4,450 in the Permanent Improvements Fund. The amount available as an advance at June 30, 2006, was \$130,979 in the General Fund, \$3,328 in the OSFC Fund, \$25,625 in the Bond Retirement Fund, and \$4,450 in the Permanent Improvements Fund.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>2006 Second-Half</u>		<u>2007 First-Half</u>	
	<u>Contributions</u>		<u>Contributions</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$33,341,190	88%	\$ 33,465,630	88%
Industrial/Commercial	1,751,490	5%	1,861,670	5%
Public Utility Personal Property	2,415,190	6%	2,338,780	6%
Tangible Personal	415,914	1%	306,930	1%
Total Assessed Value	<u>\$37,923,784</u>	<u>100%</u>	<u>\$37,973,010</u>	<u>100%</u>
Tax Rate per \$1,000 of Assessed Valuation	<u>\$ 43.20</u>		<u>\$ 43.20</u>	

NOTE 6 – INCOME TAXES

In 1991, the voters of the Holgate Local School District passed a one 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, 2007, the District recorded income tax revenue of \$697,933 in the General Fund, of which \$283,298 is recorded as a receivable at June 30, 2007.

NOTE 7 – RECEIVABLES

Receivables at June 30, 2007, consisted of property, 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:

Governmental Activities:	
Ohio Reads	\$ 9,393
REAP	8,445
Title II-A	4,021
Title V	1,478
Title IV-A	1,169
Entry Year Teacher	800
Title II-D	367
Total Intergovernmental Receivables	<u>\$ 25,673</u>

**HOLGATE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance at 6/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/07</u>
<u>Governmental Activities</u>				
<u>Non-Depreciable Capital Assets</u>				
Land	\$ 275,639	\$ -	\$ -	\$ 275,639
Total Non-Depreciable Capital Assets	<u>275,639</u>	<u>-</u>	<u>-</u>	<u>275,639</u>
<u>Depreciable Capital Assets</u>				
Land Improvements	1,381,648	-	-	1,381,648
Buildings & Building Improvements	16,330,392	-	-	16,330,392
Furniture, Fixtures, & Equipment	1,892,493	-	30,683	1,861,810
Vehicles	349,086	-	-	349,086
Books	220,127	-	-	220,127
Total Depreciable Capital Assets	<u>20,173,746</u>	<u>-</u>	<u>30,683</u>	<u>20,143,063</u>
<u>Less Accumulated Depreciation</u>				
Land Improvements	34,541	69,082	-	103,623
Buildings & Building Improvements	259,341	518,681	-	778,022
Furniture, Fixtures, & Equipment	321,163	153,349	29,682	444,830
Vehicles	348,577	509	-	349,086
Books	144,783	16,197	-	160,980
Total Accumulated Depreciation	<u>1,108,405</u>	<u>757,818</u>	<u>29,682</u>	<u>1,836,541</u>
Depreciable Capital Assets, Net	<u>19,065,341</u>	<u>(757,818)</u>	<u>1,001</u>	<u>18,306,522</u>
Governmental Activities Capital Assets, Net	<u>\$ 19,340,980</u>	<u>\$ (757,818)</u>	<u>\$ 1,001</u>	<u>\$ 18,582,161</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 692,682
Special	363
Vocational	1,742
<u>Support Services:</u>	
Pupils	712
Instructional Staff	9,477
Administration	3,603
Fiscal	2,104
Operation and Maintenance of Plant	2,068
Pupil Transportation	509
Operation of Non-Instructional Services	16,378
Extracurricular Activities	28,180
Total Depreciation Expense	<u>\$ 757,818</u>

**HOLGATE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 – RESTRICTED ASSETS

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

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash & Cash Equivalents	\$ 25,125

NOTE 10 – INTERFUND TRANSACTIONS

On the fund financial statements, the General Fund has receivables of \$12,504. The Bond Retirement Fund has receivables of \$26, the Permanent Improvements Fund has receivables of \$5, and the non-major Governmental Funds have receivables of \$2,238. The General Fund receivable consists of \$80 payable from the Permanent Improvement Fund and \$12,424 payable from the non-major governmental funds. The Bond Retirement Fund, the Permanent Improvement Fund, and the non-major governmental funds receivable consists of \$2,269 payable from the General Fund. These interfund loans were made to provide operating capital.

Interfund transfers for the year ended June 30, 2007 consisted of transfers from the General Fund to the non-major governmental funds in the amount of \$299 and from the Rotary-Latchkey Fund to the General Fund in the amount of \$650.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires them to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 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 insured. 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 plans. 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
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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. 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.

NOTE 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 defined benefit plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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 years 2006 and 2007, 10.58 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, 2007, 2006, and 2005 were \$85,975, \$82,894, and \$76,170, respectively; 58 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. The unpaid contribution for fiscal year 2007 is \$35,824.

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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

HOLGATE LOCAL SCHOOL DISTRICT
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New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP 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 CP offers features of both the DBP and the DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP 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, 2007, plan members were required to contribute 10 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 years 2006 and 2005, the portion used to fund pension obligations was 13 percent and 10 percent, respectively. 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 for the fiscal years ended June 30, 2007, 2006, and 2005 were \$341,297, \$317,364, and \$316,834, respectively; 84 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. The unpaid contribution for fiscal year 2007 is \$55,815.

NOTE 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 or Combined Plans 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 the health care cost in the form of a 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 14% of covered payroll.

HOLGATE LOCAL SCHOOL DISTRICT
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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, 2006 (the latest information available) and June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.5 billion on June 30, 2006.

For the year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282,743,000. There were 119,184 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. 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.

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, 2006 (the latest information available), the allocation rate is 3.42%. 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 2007, the minimum pay was established as \$35,800. 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. Net health care costs for the year ending June 30, 2006 (the latest information available), were \$158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (the latest information available), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

At June 30, 2006 (the latest information available), the number of participants eligible to receive benefits is 59,492.

The amount to fund postemployment benefits, including the surcharge, equaled \$23,344.

NOTE 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. 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 52.5 days.

**HOLGATE LOCAL SCHOOL DISTRICT
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June 30, 2007**

NOTE 15 – LONG-TERM OBLIATIONS

During the year ended June 30, 2007, the following changes occurred in obligations reported in the Government-Wide Financial Statements:

	Balance at 6/30/06	Increase	Decrease	Balance at 6/30/06	Amount Due Within One Year
School Construction Bonds	\$ 2,815,000	\$ -	\$ 80,000	\$ 2,735,000	\$ 85,000
Phase II Bonds	1,800,000	-	6,000	1,794,000	15,000
Compensated Absences	<u>312,051</u>	<u>315,395</u>	<u>312,051</u>	<u>315,395</u>	<u>-</u>
Total Long-Term Obligations	<u>\$ 4,927,051</u>	<u>\$ 315,395</u>	<u>\$ 398,051</u>	<u>\$ 4,844,395</u>	<u>\$ 100,000</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 Fund. The bond issue consists of \$1,329,000 Serial Bonds with interest rates ranging from 2.25% to 5.0% and \$1,740,000 Term Bonds ranging from 4.9% to 6.0%.

Phase II General Obligation Bonds – On October 7, 2005, the District issued \$1,800,000 in voted general obligation bonds for the purpose of constructing school facilities at a common site, including elementary classrooms, athletic facilities, and bus facilities. The bonds will be retired from the Bond Retirement Fund. The bond issue consists of \$1,800,000 Serial Bonds with an interest rate of 5.06% per year.

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

Principal and interest requirements to retire general obligation debt at June 30, 2007 are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 100,000	\$ 232,128	\$ 332,128
2009	105,000	227,709	332,709
2010	120,000	222,731	342,731
2011	125,000	217,228	342,228
2012	135,000	210,798	345,798
2013-2017	843,000	944,420	1,787,420
2018-2022	1,182,000	682,644	1,864,644
2023-2027	1,102,000	317,578	1,419,578
2028-2032	473,000	150,028	623,028
2033-2035	<u>344,000</u>	<u>26,824</u>	<u>370,824</u>
Total	<u>\$ 4,529,000</u>	<u>\$ 3,232,088</u>	<u>\$ 7,761,088</u>

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007**

NOTE 16 – OPERATING LEASE

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights, and therefore, the results of the lease agreement are not reflected in the District's financial statements. During 2006 the District entered into a lease agreement for a copier/printer/fax machine all-in-one unit. During fiscal year 2007, the District had expenditures of \$8,600 for the operating lease. The following schedule is of future minimum lease payments as of June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 8,600
2009	8,600
2010	8,600
2011	5,733
Total minimum lease payment	<u>\$ 31,533</u>

NOTE 17 – 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, 2006	\$ 55,798	\$ -
Current Year Set-Aside Requirement	74,172	74,172
Qualifying Disbursements	(104,845)	(152,919)
Total	<u>\$ 25,125</u>	<u>\$ (78,747)</u>
Cash Balance Carried Forward to FY 2008	<u>\$ 25,125</u>	<u>\$ -</u>

NOTE 18 – 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, Lucas Williams, and Wood 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 \$56,212. 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
June 30, 2007**

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 five representatives from the Northwest Ohio Educational Service Center – one from each of the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

NOTE 19 – GROUP PURCHASING POOLS

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

The Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. The Pool is governed by the Northern Buckeye Education Council (NBEC) and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$347,774. 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 the fiscal year, the District paid an enrollment fee of \$510 to WCGRP to cover the costs of administering the program.

C. Northwest Ohio Educational Council Self-Insurance Pool Program

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program) which is an insurance purchasing pool. The NOEC Program is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The NOEC Program is a non-profit organization to its members and an instrumentality for each member for the purpose of enabling members of the NOEC

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

Program to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the governing board of the NWOEC. The NOEC Program has an agreement with Marsh USA for administrative services and Cambridge Integrated Services, Inc. for claims processing. The District paid \$28,511 for these services to NOEC in fiscal year 2006.

NOTE 20 – 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, Ann Marckel, Clerk/Treasurer, at 204 Railway Avenue, Holgate, Ohio 43527.

NOTE 21 – 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.

NOTE 22 – 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, 2007.

B. Litigation

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

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2007

NOTE 23 – CONTRACTUAL COMMITMENTS

As of June 30, 2007, the District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
Stollsteimer Electric, Inc.	\$ 570
Brooks Contracting, Inc.	46,494
L.R. Babcock, Inc.	2,316
	<u>\$ 49,380</u>

STEYER & CO.

Certified Public Accountants

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

Board of Education
Holgate Local School District
Holgate, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holgate Local School District, Henry County, as of and for the year ended June 30, 2007, which collectively comprises the District's basic financial statements and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings as 2007-1 and 2007-3 to be significant deficiencies in internal control over financial reporting.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
SCHEDULE OF FINDINGS**
June 30, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 as items 2007-2 and 2007-4 through 2007-8. However, of the instances of noncompliance described above, we consider 2007-2 to be a material weakness.

We noted certain matters that we reported to management of the District in a separate letter dated December 13, 2007.

This report is intended solely for the information and use of the audit committee, 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.



STEYER & CO.
Certified Public Accountants

Defiance, Ohio
December 13, 2007

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
SCHEDULE OF FINDINGS
June 30, 2007**

**2007-1 Material Weakness
Financial Reporting**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental unites. 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 Standard Board (FASB) statements and interpretations on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Accordingly the District has adopted GASB Statement 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

During the course of our audit, we determined that numerous material errors were present in the District prepared financial statements. These material errors affected the General Fund, Bond Retirement Fund, Permanent Improvement Fund, Land Acquisition/Local Fund, OSFC Fund, and Other Governmental Funds. These material differences dealt with accounting calculations leading to improper presentation in the financial statements. A total of 57 audit adjustments were necessary to accurately present the financial statements as a whole.

To ensure the District’s financial statements and notes to the statements are completed and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Treasurer, to identify and correct errors and omissions.

Management’s Response:

Management understands and agrees with the citation and will make the necessary corrections.

**2007-2 Material Weakness
Non-Compliance Citation**

Ohio Revised Code §5705.39 provides that appropriations from each fund shall not exceed estimated revenue available for expenditures.

Appropriations exceeded estimated revenues in the following funds at June 30, 2007:

Fund	Estimated Resources	Appropriations	Variance
Entry Year Programs	\$ 800	\$ 950	\$ (150)
Ohio Reads	21,465	38,546	(17,081)
Title V	1,118	2,528	(1,410)
Phase II Building	180,302	810,999	(630,697)
OSFC	29,662	888,885	(859,223)

We recommend the District review estimated resources prior to approving or amending appropriations. If estimated resources are not sufficient to support planned appropriations, the District should modify appropriations or request an amended certificate, if new revenue sources are identified.

Management’s Response:

Management understands and agrees with the citation and will make the necessary corrections.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
SCHEDULE OF FINDINGS
June 30, 2007**

**2007-3 Significant Deficiency
Financial Reporting**

At the inception of our audit, we were notified by the District that a former employee was suspected of a potential embezzlement of funds. With the concurrence of the Auditor of State we were asked to perform Agreed Upon Procedures related to this issue. During the course of the field work completed by our firm we located items related to this issue that were forwarded to the Auditor of State for their determination of any potential finding for recovery. During the course of completing our audit procedures related to cash, we determined that deficiencies existed in the internal controls applicable to cash and payroll computations that could cause significant deficiencies in cash and overpayment of employees. We specifically determined that controls were not in place to prevent a misuse of cash and disbursement of payroll. These deficiencies included failure to properly review employee job performance related to cash, failure to account for numerical sequence of receipts posted to the financial records, adequate control of receipt books to prevent potential misuse, failure to review employee checks to final payroll hourly totals.

We recommend that the District implement proper procedures related to cash and payroll that will safeguard District assets.

Management's Response:

Since the occurrence of the items related to this significant deficiency, the District has implemented changes to cash management procedures. These include increased controls over receipting procedures, depository procedures, and the reconciliation of accounts. In addition to the cash procedures, the District has more adequately formalized their written procedures related to payroll.

IPA's Response:

After reviewing the updated cash and payroll procedures, the IPA concurs that these more detailed procedures should better safeguard the District assets.

**2007-4 Significant Deficiency
Noncompliance Citation**

Ohio Revised Code §5705.41(B) provides that money should not be expended unless it has been appropriated.

During the fiscal year ended June 30, 2007, the District had instances where expenditures were in excess of appropriations at the legal level of control:

Fund	Number of Instances
General Fund, Object 500	2
Land Acquisition/Local	5
Rotary	4
Agency Funds	4
EMIS	1
SchoolNet	1
Total Instances	17

The treasurer should compare all requisitions to available appropriations and to available cash balances. No expenditure should be made until appropriations have been modified in compliance with the requirements of the Ohio Revised Code.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
SCHEDULE OF FINDINGS
June 30, 2007

Management's Response:

Management understands and agrees with the citation and will make the necessary corrections.

**2007-5 Significant Deficiency
Noncompliance Citation**

Ohio Revised Code §135.13 provides that interim deposits are certificates of deposit maturing not more than one year from the deposit date. The District held money in two certificates of deposit during fiscal year 2007 that were for 396 days.

We recommend that the District closely monitor the terms of the certificates of deposit prior to issuance.

Management's Response:

Management understands and agrees with the citation and will make the necessary corrections.

**2007-6 Significant Deficiency
Noncompliance Citation**

Generally accepted accounting principles provide that the general fund accounts for all resources except those required to be accounted for in other funds. Additionally, Ohio Revised Code §5705.10 states in part that revenue derived from the general levy be paid into the general fund and that all revenue derived from a special levy be credited to a special fund for the purpose for which the levy was made. It also states that money paid into a fund must be used only for the purposes for which each fund has been established. As a result, a negative fund one indicates that money from one fund was used to cover the expenses of another fund.

During the year ended June 30, 2007, the District recorded \$32 of tax receipts in the general fund for the permanent improvement fund, bond retirement fund, and OSFC fund. These errors were located during the audit and the June 30, 2007 basic financial statements were adjusted to properly reflect the receipts in the general fund, permanent improvement fund, bond retirement fund, and OSFC fund.

It was also noted during our audit that the Title I Fund had significant negative fund balances throughout the year.

We recommend that the treasurer establish procedures to review the posting of tax receipts. Such a review would provide assurance that the revenue is properly recorded and levies are allocated in compliance with the requirements of the Ohio Revised Code. We also recommend that the treasurer monitor the fund balances throughout the year so negative balances do not occur.

Management's Response:

Management understands and agrees with the citation and will make the necessary corrections.

**2007-7 Significant Deficiency
Noncompliance Citation**

Ohio Revised Code §5705.36(A), requires that, upon reasonable determination that revenues collected by the District will be less than the amount included in an official certificate, the budget commission certify an amended official certificate reflecting the deficiency. No amendment of the official certificate was made for deficiencies within certain Special Revenue and Capital Projects Funds.

HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
SCHEDULE OF FINDINGS
June 30, 2007

Management's Response:

Management understands and agrees with the citation and will make the necessary corrections.

**2007-8 Significant Deficiency
Noncompliance Citation**

Ohio Revised Code §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 thirty cash disbursements from throughout the fiscal year. Our test indicated that two items did not have certification prior to the obligation date and neither of the two exceptions provided above were utilized.

Management's Response:

Management understands and agrees with the citation and will make the necessary corrections.

**HOLGATE LOCAL SCHOOL DISTRICT
HENRY COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Action Taken
2006-1	Material Weakness Financial Reporting District prepared financial statements	No	Not Corrected. Reissued as finding 2007-1.
2006-2	Material Weakness Ohio Revised Code §5705.39 Appropriations exceeded total estimated resources	No	Not Corrected. Reissued as finding 2007-2.
2006-3	Significant Deficiency Ohio Revised Code §5705.41(B) Expenditure in excess of appropriations	No	Not Corrected. Reissued as finding 2007-4.
2006-4	Significant Deficiency Ohio Revised Code §9.24 (A), (B), (C) ,(D), and (E) Awarding contracts	Yes	Finding no longer valid.
2006-5	Significant Deficiency Ohio Revised Code §5705.36 Certification	Yes	Finding no longer valid.
2006-6	Significant Deficiency Ohio Revised Code §135.13 Interim deposits	No	Not Corrected. Reissued as finding 2007-5.
2006-7	Significant Deficiency Ohio Revised Code §5705.10 Recording in proper fund.	No	Not Corrected. Reissued as finding 2007-6.
2006-8	Significant Deficiency Ohio Revised Code §5705.38(B) Approval of permanent appropriations	Yes	Finding no longer valid.
2006-9	Significant Deficiency Ohio Revised Code §5705.36(A) Amended official certificates	No	Not Corrected. Reissued as finding 2007-7.
2006-10	Significant Deficiency Ohio Revised Code §5705.41(D) Then and now certificate	No	Not Corrected. Reissued as finding 2007-8.
2006-11	Significant Deficiency Ohio Revised Code §3313.41 Disposal of personal property	Yes	Finding no longer valid.
2006-12	Significant Deficiency Ohio Revised Code §117.38 Public notice	Yes	Finding no longer valid.



Mary Taylor, CPA
Auditor of State

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
MARCH 20, 2008**