



**HOLGATE LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1998**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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## REPORT OF INDEPENDENT ACCOUNTANTS

Holgate Local School District  
Henry County  
103 Frazier Street  
Holgate, Ohio 43527-9774

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Holgate Local School District, Henry County, (the District) as of and for the year ended June 30, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Holgate Local School District, Henry County, as of June 30, 1998, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 and Note 20 to the general-purpose financial statements, during the year ended June 30, 1998, the District changed its method of accounting for certain investments, grants, and its Rotary Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 1999, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

December 21, 1999



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**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
FOR THE YEAR ENDED JUNE 30, 1998**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>ASSETS AND OTHER DEBITS:</b>			
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,166,614	\$71,073	\$369,237
Cash and Cash Equivalents:			
With Fiscal Agents		3,645	
Receivables:			
Taxes	837,562		52,342
Accounts	2,019	390	
Intergovernmental	1,273		
Accrued Interest	77,108		
Materials and Supplies Inventory	2,950		
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	12,462		
Fixed Assets (Net of Accumulated Depreciation, Where Applicable)			
<b>Other Debits:</b>			
Provided from General Government Resources			
<b>Total Assets and Other Debits</b>	<b><u>\$2,099,988</u></b>	<b><u>\$75,108</u></b>	<b><u>\$421,579</u></b>
 <b>LIABILITIES, EQUITY, AND OTHER CREDITS:</b>			
<b>Liabilities:</b>			
Accounts Payable	\$5,951		
Accrued Wages and Benefits	264,489	\$5,843	
Compensated Absences Payable	18,208		
Intergovernmental Payable	47,808		
Due to Students			
Deferred Revenue	637,844		\$46,625
Total Liabilities	<u>974,300</u>	<u>5,843</u>	<u>46,625</u>
<b>Fund Equity and Other Credits:</b>			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balances:			
Reserved:			
Reserved for Encumbrances	11,561	14,824	55,206
Reserved for Inventory	2,950		
Reserved for Property Taxes	80,126		5,717
Reserved for Budget Stabilization	12,462		
Unreserved:			
Unreserved, Undesignated	1,018,589	54,441	314,031
Total Fund Equity and Other Credits	<u>1,125,688</u>	<u>69,265</u>	<u>374,954</u>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b><u>\$2,099,988</u></b>	<b><u>\$75,108</u></b>	<b><u>\$421,579</u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*



Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$35,202	\$16,611			\$1,658,737
				3,645
45	240			889,904
				2,694
				1,273
5,082				77,108
				8,032
				12,462
10,544		\$5,493,798		5,504,342
			\$317,960	317,960
<b>\$50,873</b>	<b>\$16,851</b>	<b>\$5,493,798</b>	<b>\$317,960</b>	<b>\$8,476,157</b>
	\$878			\$6,829
\$8,273				278,605
4,936			\$291,565	314,709
4,440			26,395	78,643
	15,973			15,973
2,279				686,748
19,928	16,851		317,960	1,381,507
		\$5,493,798		5,493,798
30,945				30,945
				81,591
				2,950
				85,843
				12,462
				1,387,061
30,945		5,493,798		7,094,650
<b>\$50,873</b>	<b>\$16,851</b>	<b>\$5,493,798</b>	<b>\$317,960</b>	<b>\$8,476,157</b>

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1998**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Revenues:</b>				
Intergovernmental	\$1,792,980	\$89,137	\$10,894	\$1,893,011
Interest	107,170			107,170
Tuition and Fees	12,172			12,172
Extracurricular Activities		54,432		54,432
Rent	755			755
Income Tax	374,768			374,768
Property and Other Local Taxes	731,855		53,364	785,219
Miscellaneous	4,946			4,946
Total Revenues	3,024,646	143,569	64,258	3,232,473
<b>Expenditures:</b>				
Instruction:				
Regular	1,537,232	7,087	57,742	1,602,061
Special	557	48,603		49,160
Vocational	120,294			120,294
Adult/Continuing	768			768
Other	3,308			3,308
Support Services:				
Pupils	86,592	6,581		93,173
Instructional Staff	107,050	14,062	1,073	122,185
Board of Education	11,198			11,198
Administration	326,824	5,972		332,796
Fiscal	132,567	225	1,303	134,095
Operation and Maintenance of Plant	265,339	147	60,724	326,210
Pupil Transportation	139,148	578		139,726
Central	28,348	734		29,082
Extracurricular activities	82,267	57,411		139,678
Capital Outlay			39,241	39,241
Total Expenditures	2,841,492	141,400	160,083	3,142,975
Excess of Revenues Over (Under) Expenditures	183,154	2,169	(95,825)	89,498
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In		261		261
Other Financing Sources	13,093	411		13,504
Total Other Financing Sources (Uses)	13,093	672		13,765
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	196,247	2,841	(95,825)	103,263
Fund Balance at Beginning of Year	929,441	66,424	470,779	1,466,644
Fund Balance at End of Year	\$1,125,688	\$69,265	\$374,954	\$1,569,907

*The notes to the general-purpose financial statements are an integral part of this statement.*

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR YEAR ENDED JUNE 30, 1998**

	General Fund		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>			
Property and Other Local Taxes	\$724,312	\$716,218	(\$8,094)
Income Tax	375,000	374,768	(232)
Intergovernmental - State	1,795,850	1,789,836	(6,014)
Intergovernmental - Federal	1,800	1,369	(431)
Tuition	375	375	
Earnings on investments	76,000	76,168	168
Extracurricular revenue			
Miscellaneous	18,250	17,383	(867)
Total revenues	<u>2,991,587</u>	<u>2,976,117</u>	<u>(15,470)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	1,831,890	1,537,555	294,335
Special	2,280	557	1,723
Vocational	141,510	119,423	22,087
Adult/Continuing	1,500	768	732
Other	8,900	1,298	7,602
Support services:			
Pupil	102,300	86,356	15,944
Instructional staff	135,775	107,475	28,300
Board of Education	23,600	11,198	12,402
School administration	359,500	303,065	56,435
Fiscal	170,770	121,351	49,419
Operations and maintenance	444,235	265,940	178,295
Pupil transportation	218,583	150,493	68,090
Central	41,000	28,348	12,652
Extracurricular activities	84,275	81,881	2,394
Capital outlay	15,500		15,500
Total expenditures	<u>3,581,618</u>	<u>2,815,708</u>	<u>765,910</u>
Excess of revenues over (under) expenditures	<u>(590,031)</u>	<u>160,409</u>	<u>750,440</u>
<b>Other financing sources (uses):</b>			
Operating transfers in	12,462		(12,462)
Other Sources	12,000	12,589	589
Advances In	10,000		(10,000)
Operating transfers out	(100,000)		100,000
Other Uses	(150)		150
Advances Out	(15,000)		15,000
Total other financing sources (uses)	<u>(80,688)</u>	<u>12,589</u>	<u>93,277</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(670,719)</u>	<u>172,998</u>	<u>843,717</u>
Fund balance, July 1	924,324	924,324	
Prior year encumbrances appropriated	67,215	67,215	
<b>Fund balance, June 30</b>	<b><u>\$320,820</u></b>	<b><u>\$1,164,537</u></b>	<b><u>\$843,717</u></b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Special Revenue			Capital Projects			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
			\$58,000	\$52,062	(\$5,938)	\$782,312	\$768,280	(\$14,032)
						375,000	374,768	(232)
\$18,824	\$18,824		4,650	10,893	6,243	1,819,324	1,819,553	229
48,198	48,198					49,998	49,567	(431)
						375	375	
						76,000	76,168	168
55,700	56,185	\$485				55,700	56,185	485
						18,250	17,383	(867)
122,722	123,207	485	62,650	62,955	305	3,176,959	3,162,279	(14,680)
30,858	12,736	18,122	72,834	82,604	(9,770)	1,935,582	1,632,895	302,687
49,358	48,215	1,143				51,638	48,772	2,866
						141,510	119,423	22,087
						1,500	768	732
						8,900	1,298	7,602
2,286	1,192	1,094				104,586	87,548	17,038
896	896		1,073	1,073		137,744	109,444	28,300
						23,600	11,198	12,402
7,650	3,762	3,888				367,150	306,827	60,323
246	225	21	2,000	1,303	697	173,016	122,879	50,137
			75,000	60,724	14,276	519,235	326,664	192,571
587	578	9	40,000	40,000		259,170	191,071	68,099
4,000	734	3,266				45,000	29,082	15,918
73,740	65,893	7,847				158,015	147,774	10,241
			65,000	39,241	25,759	80,500	39,241	41,259
169,621	134,231	35,390	255,907	224,945	30,962	4,007,146	3,174,884	832,262
(46,899)	(11,024)	35,875	(193,257)	(161,990)	31,267	(830,187)	(12,605)	817,582
250	261	11				12,712	261	(12,451)
875	636	(239)				12,875	13,225	350
4,181		(4,181)				14,181		(14,181)
						(100,000)		100,000
						(150)		150
(4,181)		4,181				(19,181)		19,181
1,125	897	(228)				(79,563)	13,486	93,049
(45,774)	(10,127)	35,647	(193,257)	(161,990)	31,267	(909,750)	881	910,631
50,241	50,241		476,020	476,020		1,450,585	1,450,585	
16,154	16,154					83,369	83,369	
<b>\$20,621</b>	<b>\$56,268</b>	<b>\$35,647</b>	<b>\$282,763</b>	<b>\$314,030</b>	<b>\$31,267</b>	<b>\$624,204</b>	<b>\$1,534,835</b>	<b>\$910,631</b>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND EQUITY  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 1998**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Revenues:</b>	
Sales	\$121,855
Other Operating Revenue	15,381
Total Operating Revenues	137,236
<b>Operating Expenses:</b>	
Salaries	43,297
Fringe Benefits	32,974
Purchased Services	5,010
Materials and Supplies	102,354
Depreciation	2,183
Other	324
Total Operating Expenses	186,142
Operating Loss	(48,906)
<b>Non-Operating Revenues:</b>	
Federal Donated Commodities	17,231
Federal and State Subsidies	29,773
Total Non-Operating Revenues	47,004
Net Loss	(1,902)
Retained Earnings at Beginning of Year	32,847
<b>Retained Earnings at End of Year</b>	<b>\$30,945</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE  
 FOR YEAR ENDED JUNE 30, 1998**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS:</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Tuition and Fees	\$15,336
Cash Received from Sales	121,855
Cash Payments for Personal Services	(80,431)
Cash Payments for Contract Services	(5,010)
Cash Payments for Supplies and Materials	(84,207)
Cash Payments for Other Expenses	(215)
Net Cash Used for Operating Activities	(32,672)
<b>Cash Flows from Noncapital Financing Activities:</b>	
Operating Grants Received	29,773
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition of Capital Assets	(109)
Net Decrease in Cash and Cash Equivalents	(3,008)
Cash and Cash Equivalents at Beginning of Year	38,210
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$35,202</b>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:</b>	
Operating Loss	(\$48,906)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</b>	
Depreciation	2,183
Adjustments to Capital Outlay	109
Donated Commodities Used During the Year	17,231
Changes in Assets and Liabilities:	
Supplies Inventory	1,160
Accounts Receivable	(45)
Accrued Wages and Benefits	(981)
Compensated Absences Payable	585
Intergovernmental Payable	(3,764)
Deferred Revenue	(244)
<b>Net Cash Used for Operating Activities</b>	<b>(\$32,672)</b>

The Food Service Fund consumed donated commodities with a value of \$17,231.  
 The use of these commodities is reflected as an operating expense.

*The notes to the general-purpose financial statements are an integral part of this statement.*

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Holgate Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Holgate Local School District is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's four instructional/support facilities.

**The Reporting Entity**

The District has implemented the Governmental Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which District officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the District's oversight responsibility which required incorporation into the financial statements.

The District is associated with organizations which are defined as jointly governed organizations, related organizations, and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Joint Vocational School, Holgate Community Library, the Northern Buckeye Education Council's Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14, 15 and 16 to the general-purpose financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

The modified accrual basis of accounting is followed for governmental and agency funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income determination. Under this basis of accounting:

1. Only current assets and current liabilities are generally included on their balance sheets.
2. Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.
3. Revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the District is 60 days after year end.
  - a. Revenue accrued at the end of the year included taxes, interest, student fees, and tuition.
  - b. Property taxes measurable, but not available as of June 30, 1998 and delinquent property taxes, whose availability is indeterminate, have been recorded as deferred revenues.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

4. Expenditures are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; the current costs of accumulated unpaid vacation and sick leave are reported in the period in which they will be liquidated with available financial resources, rather than in the period earned by employees.

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

The proprietary funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. The District also applies Financial Accounting Standards Board (FASB) Statements issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

**B. Fund Accounting**

The District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**1. Governmental Funds**

The funds through which most Board of Education functions are typically financed.

*General Fund* - The fund used to account for all financial resources except those required to be segregated and accounted for in other funds. The General Fund is the general operating fund of the District.

*Special Revenue Funds* - The funds used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

*Capital Projects Funds* - The funds 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).

**2. Proprietary Funds**

The funds used to account for Board activities that are similar to business operations in the private sector. Proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

*Enterprise Funds* - The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**3. Fiduciary Funds**

The funds used to account for assets not owned by the Board, but held for a separate entity.

*Agency Funds* - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**4. Account Groups**

*General Fixed Assets* - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the general fixed assets account group.

*General Long-Term Obligations* - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the proprietary funds.

**C. Budgetary Accounting**

Budgets are adopted on a cash basis.

The Eisenhower, Title VI-B and Handicapped Preschool special revenue funds are pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. Budgetary information for these funds are not included within the District's reporting entity for which the "appropriated budget" is adopted, and they do not maintain separate budgetary records.

The District is required by State statute to adopt an annual appropriation budget for all funds. The specific timetable is as follows:

1. Prior to January 15, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. A public hearing is publicized and conducted to obtain taxpayers' comments. The purpose of this Budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board adopted budget is filed with the County Budget Commission for rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemental during the year as new information becomes available. Appropriations may not exceed estimated resources.
5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary budgetary adjustments within each fund which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.
6. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

The District's budget (budget basis) for all funds accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types follows:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses For the Year Ended June 30, 1998			
	General	Special Revenue	Capital Projects
Budget Basis	\$172,998	(\$10,127)	(\$161,990)
Revenue Accruals	48,529	20,362	1,303
Expenditure Accruals	(40,323)	(21,974)	9,656
Other Financing Sources (Uses)	504	(225)	
Reserve for Encumbrances	14,539	14,805	55,206
GAAP Basis	\$196,247	\$2,841	(\$95,825)

**Legal Compliance**

Appropriations exceeded estimated resources in the Title I, Title VI, Rotary, and Student Activities Funds during a portion of the fiscal year, contrary to Ohio Revised Code § 5705.39.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**D. Encumbrances**

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**E. Pooled Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary 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 combined balance sheet.

During fiscal year 1998, investments were limited to nonparticipating investment contracts, which are certificates of deposit that are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1998 amounted to \$107,170.

**F. Inventory**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expended when used.

**G. Property, Plant and Equipment**

**1. General Fixed Assets Account Group**

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Improvements are capitalized. The cost 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. Interest incurred during construction of general fixed assets is also not capitalized. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$250, except for the cost of textbooks. This is based primarily on the uniqueness of these items to a school operation and an existing five-year textbook adoption policy. No depreciation is recognized for assets in the general fixed assets account group. The District does not have any infrastructure.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**2. Proprietary Funds**

Property, plant and equipment reflected in the proprietary funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight-line basis over estimated useful lives of five to twenty years.

**H. Intergovernmental Revenues**

In governmental funds, entitlements and non-reimbursable grants are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for proprietary fund operations are recognized as revenue when measurable and earned. This District currently participates in various state and federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program  
School Bus Purchase Reimbursement

Non-Reimbursable Grants

Special Revenue Funds

Drug Free School Grant  
Title I  
Title VI  
Henry County Works Grant  
Educational Management Information Systems (EMIS)  
Educational Innovation Grant  
Textbook/Instructional Materials Subsidy  
Teacher Development  
Handicapped Preschool (Through Northwest Ohio Educational Service Center)  
Title VI-B Flow Through (Through Northwest Ohio Educational Service Center)  
Eisenhower Grant Fund (Through Northwest Ohio Educational Service Center)

Capital Projects Funds

SchoolNet Plus  
Technology Equity

Reimbursable Grants

General Fund

Driver Education Reimbursement  
Vocational Mileage Reimbursement (C. Perkins Grant)

Enterprise Fund

National School Lunch Program  
Government Donated Commodities

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**I. Interfund Transactions**

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended and recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans are reflected as due to and due from other funds.

**J. Fund Balance Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for property tax, encumbrances, budget stabilization, and inventory. The reserve for property tax represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

**K. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type eliminations have not been made in the combining of the data.

**L. Cash Flows**

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 are reported as investments.

**M. Compensated Absences**

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement. Likewise, the District accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

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.

For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the general long-term obligations account group. In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

**N. Pass-through Grants**

The Eisenhower, Title VI-B, and Handicapped Preschool special revenue funds are pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24 "Accounting and Financial Reporting for 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.

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction. During fiscal year 1998, the District received a \$12,462 refund from the Bureau of Workers' Compensation which State statute required to be included in this reserve. This refund is presented as "Other Financing Sources" in the accompanying financial statements. A fund balance reserve has also been established.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 1998, the District has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value.

The implementation of GASB Statement No. 31 had no effect on the fund balance/retained earnings of any fund type that had been previously reported at June 30, 1997.



**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

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

At fiscal year-end, the District had \$3,645 in cash and cash equivalents held by the Northwest Educational Service Center which is included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agents."

**Cash on Hand**

For year ending June 30, 1998, the District had cash on hand of \$50, which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents."

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

**Deposits**

At June 30, 1998 the carrying amount of the District's deposits was \$1,671,149 and the bank balance was \$1,754,283. Of the bank balance:

1. \$418,117 was covered by federal depository insurance; and
2. \$1,336,166 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

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

	Cash and Cash Equivalents Deposits
GASB Statement 9	\$1,674,844
Cash on Hand	(50)
Cash with Fiscal Agents	(3,645)
GASB Statement 3	\$1,671,149

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**NOTE 5 - PROPERTY TAXES**

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35% of appraised market value. Pertinent real property tax dates are:

Collection Dates	January and July of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value.

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

Collection Dates	April and September of the current year
Lien Date	January 1 of the current year
Levy Date	April 1 of the year preceding the collection year

Most public utility tangible personal property currently is assessed at 35% of its true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January and July of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

The County Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in March and August.

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in May and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at June 30, 1998. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion which is available to advance as of June 30, 1998.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

The assessed values of properties upon which property tax revenues were based are as follows:

	Fiscal Year 1998
Residential/Agricultural	\$23,805,330
Commercial/Industrial	1,138,790
Public Utility Real Property	119,650
Public Utility Personal Property	4,002,730
General Personal Property	712,382
Total valuation	<u>\$29,778,882</u>

**NOTE 6 - FIXED ASSETS**

A summary of changes in the General Fixed Assets Account Group is as follows:

	Balance at June 30, 1997	Additions	Disposal	Adjustments	Balance at June 30, 1998
Land and land improvements	\$255,986				\$255,986
Buildings	3,114,162	\$71,808	\$3,738		3,182,232
Furniture, fixtures, and equipment	1,222,894	123,955	3,210		1,343,639
Vehicles	320,888	51,351	32,163	\$34,452	374,528
Textbooks and library books	337,413				337,413
Total	<u>\$5,251,343</u>	<u>\$247,114</u>	<u>\$39,111</u>	<u>\$34,452</u>	<u>\$5,493,798</u>

The adjustment amount of \$34,452 was for vehicles identified by the District during fiscal year 1998 that were determined to be owned by the District and in existence before June 30, 1997. The adjustment amount was needed to properly state the General Fixed Assets Account Group balance at June 30, 1998.

A summary of Enterprise Fund fixed assets follows:

	Balance at June 30, 1998
Furniture, fixtures, and equipment	\$74,363
Less accumulated depreciation	<u>(63,819)</u>
Total	<u>\$10,544</u>

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following changes occurred in obligations reported in the general long-term obligations account group:

	Balance at June 30, 1997	Additions	Reductions	Balance at June 30, 1998
Intergovernmental Payable	\$22,879	\$3,516		\$26,395
Compensated Absences	271,592	19,973		291,565
Total	<u>\$294,471</u>	<u>\$23,489</u>		<u>\$317,960</u>

**NOTE 8 - COMPENSATED ABSENCES**

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 49 days.

At June 30, 1998, the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the general long-term obligation account group were \$18,208 and \$291,565, respectively. The liability for compensated absences in the proprietary funds at June 30, 1998, was \$4,936.

**NOTE 9 - PENSION AND RETIREMENT 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 pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1998, 9.79 percent 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 contributions for pension obligations to SERS for the fiscal years ending June 30, 1998, 1997, and 1996, were

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

\$42,833, \$40,275, and \$42,174, respectively; 29 percent has been contributed for fiscal year 1998 and 100 percent for fiscal years 1997 and 1996. \$30,266, representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ending June 30, 1998, 1997, and 1996, were \$180,115, \$179,702, and \$169,025 respectively; 84 percent has been contributed for fiscal year 1998 and 100 percent for fiscal years 1997 and 1996. \$28,680, representing the unpaid contribution for fiscal year 1998, is recorded as a liability within the respective funds.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the District, this amount equaled \$60,038 during fiscal year 1998.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,156,000 at June 30, 1998. For the year ended June 30, 1997, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefits recipients.

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

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1998, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care at June 30, 1998, were \$111,900,575 and the target level was \$139,900,000. At June 30, 1998 SERS had net assets available for payment of health care benefits of \$160,300,000. SERS has approximately 50,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including the surcharge, equaled \$28,629 during the 1998 fiscal year.

**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 coverage amounts in any of the past three years, and there has been no significant reduction in insurance coverage from last 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 districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 15). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all 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.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

**NOTE 12 - ENTERPRISE FUNDS SEGMENT INFORMATION**

The District maintains two Enterprise Funds which include lunchroom/cafeteria and uniform school supply. Segment information for the year ended June 30, 1998, was as follows:

For the Year Ended June 30, 1998			
	Lunchroom/ Cafeteria	Uniform School Supplies	Total Enterprise Funds
Operating revenues	\$121,855	\$15,381	\$137,236
Depreciation	2,183		2,183
Operating income (loss)	(49,535)	\$629	(48,906)
Donated Commodities	17,231		17,231
Grants	29,773		29,773
Net income(loss)	(2,531)	\$629	(1,902)
Net working capital	15,450	\$4,951	20,401
Total assets	45,922	\$4,951	50,873
Total liabilities	19,928		19,928
Total equity	25,994	\$4,951	30,945

**NOTE 13 - INTERFUND TRANSACTIONS**

Interfund balances consist of the following individual fund transactions:

For the Year Ended June 30, 1998		
	Transfers In	Transfers Out
Special Revenue Funds	\$261	
Agency Funds		\$261
Total All Fund Types	\$261	\$261

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its



**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

participating members. Total disbursements made by the District to NWOCA during fiscal year 1998 was \$43,127. Financial information can be obtained from Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. The District paid \$21,718 for services received through NBEC. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Joint Vocational School**

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

**NOTE 15 - GROUP PURCHASING POOLS**

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

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during the fiscal year ending June 30, 1998 was \$186,301. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council's Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under § 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 the costs of administering

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

the program. During the fiscal year ending June 30, 1998, the District paid an enrollment fee of \$384 to the WCGRP to cover the costs of administering the program.

**NOTE 16 - RELATED ORGANIZATION**

**Holgate Community Library**

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

**NOTE 17 - SCHOOL DISTRICT INCOME TAX**

In 1992, the voters of the Holgate Local School District passed a 1% 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, 1998, the District recorded income tax revenue of \$374,768 in the General fund, of which \$119,593 is recorded as a receivable at June 30, 1998.

**NOTE 18 - AGENCY FUNDS**

General-Purpose Statement of Changes in Assets and Liabilities			
	Balance at 06/30/98	Change	Balance at 06/30/99
Assets	\$19,195	(\$2,344)	\$16,851
Liabilities	\$19,195	(\$2,344)	\$16,851

**NOTE 19 - STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this District. During the fiscal year ended June 30, 1998 the District received \$1,568,416 of school foundation support for its general fund.

Since the Supreme Court Ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws, and in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in the Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

**NOTE 20 - CHANGES IN FINANCIAL STATEMENT PRESENTATION**

In prior years the District accounted for its Technology Equity grant as a Special Revenue Fund. Beginning in fiscal year 1998 the District correctly accounted for this activity in a Capital Projects Fund.

In prior years the District reported its Rotary Fund as an Internal Service Fund. Beginning in fiscal year 1998 the District correctly recorded its Rotary Fund activity as an Agency Fund.

At June 30, 1997, the unexpended balances of grants administered by the Northwest Ohio Educational Service Center were not presented on the Special Revenue balance sheet.

The effect of these changes is as indicated below:

	Special Revenue	Capital Projects	Internal Service
Fund Balances Originally Stated 6/30/97	\$52,067	\$480,435	\$376
Prior Period Adjustment	14,357	(9,656)	(376)
Restated Fund Balances 7/1/97	<u>\$66,424</u>	<u>\$470,779</u>	
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses Originally Stated 6/30/97	(\$15,674)	\$296,003	(\$97)
Prior Period Adjustment	14,357	(9,656)	97
Restated Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses 7/1/97	<u>\$ (1,317)</u>	<u>\$ 286,347</u>	

**NOTE 21 - YEAR 2000 ISSUE**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the District's operations as early as fiscal 1999.

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 1998**  
**(Continued)**

The District has completed an inventory of computer systems and other equipment necessary to conducting District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)). The District's school building has heating, air conditioning and ventilation systems, which have efficiency utilization measures within the system. The District can manually override any computerized controls within the system.

The District contracts with the Northwest Ohio Computer Association (NWOCA) for its financial operations including financial reporting, payroll and employee benefits, and educational statistics reporting. NWOCA is responsible for remediating these systems.

Henry County collects property taxes for distribution to the District. Henry County is responsible for remediating its tax collection system.

The State of Ohio distributes a substantial sum of money to the District in the form of "Foundation" payments. Further, the State processes a significant amount of financial and non-financial information about the District through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Holgate Local School District  
Henry County  
103 Frazier Street  
Holgate, Ohio 43527-9774

To the Board of Education:

We have audited the financial statements of Holgate Local School District, Henry County, (the District) as of and for the year ended June 30, 1998, and have issued our report thereon dated December 21, 1999, in which we noted the District changed its method of accounting for certain investments, grants, and its Rotary Fund. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1998-10135-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 21, 1999.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1998-10135-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated December 21, 1999.

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



**Jim Petro**  
Auditor of State

December 21, 1999

**SCHEDULE OF FINDINGS  
JUNE 30, 1998**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 1998-10135-001**

**Noncompliance Citation**

Ohio Revised Code § 5705.39 states that the total appropriations for each fund should not exceed the total estimated revenue available for expenditure as certified by the county budget commission. Appropriations exceeded the estimated resources by 96% in the Title I Fund, 6% in the Title VI Fund, 69% in the Rotary Fund, and 9% in the Student Activities Fund during portions of the fiscal year. This was due to the lack of adequate and timely monitoring of the District's budget vs. actual activity. Appropriations in excess of estimated resources could result in deficit spending during the fiscal year. We recommend that District officials regularly monitor budget vs. actual activity. Appropriations and estimated resources should be amended as necessary to ensure compliance throughout the fiscal year, as well as at year end.

**FINDING NUMBER 1998-10135-002**

**Amended Certificates of Estimated Resources**

Sound accounting practices provide that budgeted revenues and expenditures posted to the District ledgers be based on amounts formally reviewed and approved by the Board. Estimated revenues posted to the District's ledgers were not based on, and could not be agreed to, the Amended Certificates formally approved by the Budget Commission. Also, the budgeted expenditures posted to the District's ledgers did not reflect amounts estimated per the Appropriation Resolutions and Board-approved modifications and supplements. This caused budgeted revenues and expenditures to be misstated on the District's financial statements for fiscal year 1998. The accompanying budgetary statements were adjusted in the Capital Projects Fund Type by \$6,250 to reflect the correct budgeted revenue.

We recommend the taxes revenue and total other sources revenue amounts posted to the ledgers be reconciled with the amounts officially approved on the Amended Certificates of Estimated Resources. Also, we recommend the budgeted expenditures posted to the accounting ledgers reflect the amounts originally approved on the Appropriations Resolutions and any modifications or supplements approved by the Board in the minutes.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**HOLGATE LOCAL SCHOOL DISTRICT**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 13, 2000**