



Dave Yost • Auditor of State



HOLGATE LOCAL SCHOOL DISTRICT  
HENRY COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Holgate Local School District  
Henry County  
801 East Joe E. Brown Avenue  
Holgate, Ohio 43527

To the Board of Education:

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Holgate Local School District, Henry County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



**Dave Yost**  
Auditor of State

February 3, 2012

Holgate Local School District  
Henry County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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The discussion and analysis of Holgate Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. 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.

### **Highlights**

Highlights for fiscal year 2010 are as follows:

In total, net assets increased \$1,023,837, or 5 percent, from the prior fiscal year.

General revenues accounted for 81 percent of total revenues and reflect the District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.

### **Using the Basic Financial Statements**

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other nonmajor funds presented in total in a single column. For the District, the General Fund, the Bond Retirement debt service fund, and the Ohio School Facilities Commission capital projects fund are the most significant funds.

### **Reporting the District as a Whole**

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's 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. Nonfinancial 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, all of the District's activities are presented as governmental activities. All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

Holgate Local School District  
Henry County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its financial transactions, the fund financial statements focus on the District's most significant funds. The District's major funds are the General Fund, the Bond Retirement debt service fund, and the Ohio School Facilities Commission capital projects fund.

Governmental Funds - All 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 financial 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.

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 2010 and fiscal year 2009.

Table 1  
Net Assets

	Governmental Activities		
	2010	2009	Change
<u>Assets:</u>			
Current and Other Assets	\$6,028,670	\$4,797,816	\$1,230,854
Capital Assets, Net	20,404,570	20,417,134	(12,564)
Total Assets	26,433,240	25,214,950	1,218,290
<u>Liabilities:</u>			
Current and Other Liabilities	2,028,162	1,729,488	298,674
Long-Term Liabilities	4,506,145	4,610,366	(104,221)
Total Liabilities	6,534,307	6,339,854	194,453
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	\$16,171,686	\$16,045,776	\$125,910
Restricted	1,701,408	1,101,166	600,242
Unrestricted	2,025,839	1,728,154	297,685
Total Net Assets	\$19,898,933	\$18,875,096	\$1,023,837

Holgate Local School District  
Henry County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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Although the overall change in net assets was only 5 percent, there were a couple items of note as identified in the above table. The increase in current and other assets is the result of Ohio School Facilities Commission resources received by the District for roof repair. A substantial portion of these resources had not been spent as of fiscal year end; however, construction had started. As a result, there were outstanding liabilities as of fiscal year end which are reflected in the increase in current and other liabilities. Both of these factors effected the change in restricted net assets. The increase in unrestricted net assets can be primarily attributed to the excess of revenues over expenses in the General Fund for fiscal year 2010.

Table 2 reflects the change in net assets for fiscal year 2010 and fiscal year 2009.

Table 2  
Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009	Change
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$618,109	\$649,730	(\$31,621)
Operating Grants and Contributions	702,770	515,403	187,367
Capital Grants and Contributions	5,000	6,502	(1,502)
Total Program Revenues	<u>1,325,879</u>	<u>1,171,635</u>	<u>154,244</u>
General Revenues			
Property Taxes Levied for General Purposes	1,028,641	888,602	140,039
Property Taxes Levied for Classroom Maintenance	17,497	16,596	901
Property Taxes Levied for Debt Service	416,747	358,530	58,217
Property Taxes Levied for Permanent Improvements	67,982	65,713	2,269
Income Taxes	673,531	665,844	7,687
Payment in Lieu of Taxes	1,638	1,587	51
Grants and Entitlements	3,502,246	2,488,228	1,014,018
Interest	44,620	71,501	(26,881)
Gifts and Donations	6,100	1,727	4,373
Miscellaneous	79,006	54,810	24,196
Total General Revenues	<u>5,838,008</u>	<u>4,613,138</u>	<u>1,224,870</u>
Total Revenues	<u>7,163,887</u>	<u>5,784,773</u>	<u>1,379,114</u>
<u>Expenses</u>			
Instruction:			
Regular	2,822,995	2,671,702	(151,293)
Special	543,770	505,893	(37,877)
Vocational	107,136	115,434	8,298

Holgate Local School District  
Henry County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

Table 2  
Change in Net Assets  
(continued)

	Governmental Activities 2010	Governmental Activities 2009	Change
<u>Expenses</u>			
Support Services:			
Pupils	246,571	236,462	(10,109)
Instructional Staff	189,432	177,007	(12,425)
Board of Education	17,994	18,312	318
Administration	494,890	553,978	59,088
Fiscal	207,218	164,523	(42,695)
Business	8,917	8,151	(766)
Operation and Maintenance of Plant	453,885	464,021	10,136
Pupil Transportation	218,955	172,052	(46,903)
Central	90,796	78,016	(12,780)
Non-Instructional Services	241,417	229,925	(11,492)
Extracurricular Activities	274,340	304,145	29,805
Interest and Fiscal Charges	221,734	226,746	5,012
Total Expenses	<u>6,140,050</u>	<u>5,926,367</u>	<u>(213,683)</u>
Increase (Decrease) in Net Assets	1,023,837	(141,594)	1,165,431
Net Assets at Beginning of Year	<u>18,875,096</u>	<u>19,016,690</u>	<u>(141,594)</u>
Net Assets at End of Year	<u>\$19,898,933</u>	<u>\$18,875,096</u>	<u>\$1,023,837</u>

Program revenues represent over 18 percent of total revenues and primarily consist of restricted intergovernmental revenues, charges for tuition and fees and extracurricular activities, and food service sales. The increase in program revenues from the prior fiscal year is generally due to increased grant resources as part of the American Recovery and Reinvestment Act (ARRA) program. A significant change in general revenues is reflected in the increase in unrestricted grants and entitlements and largely due to the additional Ohio School Facilities Commission resources received for the roof repair.

The overall increase in expenses was less than 4 percent with the largest changes occurring in the instruction program and generally due to wage and step increases. The major program expense for governmental activities, as expected, continues to be for instruction, which accounts for 56 percent of all governmental expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 11 percent of governmental expenses. Maintenance of the District's facilities also represents a significant expense, approximately 7 percent. Therefore, 74 percent of the District's expenses are related directly to providing facilities and delivering education.

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, 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.

Holgate Local School District  
Henry County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction:				
Regular	\$2,822,995	\$2,671,702	\$2,352,652	\$2,176,620
Special	543,770	505,893	59,617	205,052
Vocational	107,136	115,434	74,230	82,773
Support Services:				
Pupils	246,571	236,462	241,571	231,462
Instructional Staff	189,432	177,007	189,432	177,007
Board of Education	17,994	18,312	17,994	18,312
Administration	494,890	553,978	494,890	553,978
Fiscal	207,218	164,523	207,218	164,523
Business	8,917	8,151	8,917	8,151
Operation and Maintenance of Plant	453,885	464,021	453,885	464,021
Pupil Transportation	218,955	172,052	217,774	164,747
Central	90,796	78,016	86,223	72,016
Non-Instructional Services	241,417	229,925	(1,143)	4,641
Extracurricular Activities	274,340	304,145	189,177	204,683
Interest and Fiscal Charges	221,734	226,746	221,734	226,746
Total Expenses	<u>\$6,140,050</u>	<u>\$5,926,367</u>	<u>\$4,814,171</u>	<u>\$4,754,732</u>

The above table demonstrates that the dependence on tax revenues and unrestricted state entitlements is considerable with 78 percent of all programs supported by these revenue sources. Almost 72 percent of instruction activities are supported through taxes and other general revenues. Several programs, however, receive substantial support through program revenues. Approximately 89 percent of special instruction costs are provided for through program revenues. This is the result of various grants restricted for special instruction purposes (substantially more than in prior fiscal years due to ARRA resources). All of the non-instructional services costs were covered by program revenues in fiscal year 2010. This is primarily due to cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Approximately 31 percent of extracurricular activities expenses were covered by program revenues. These program revenues are the result of music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. The increase in fund balance in the General Fund (20 percent) was due to the realignment of staff to accommodate declining enrollment, savings from staff retirement, additional funding (ARRA) received and used to offset special education costs, and a decrease in purchased services.

The increase in fund balance in the Bond Retirement fund (70 percent) was due to taxes collected being more than the debt principal payment for the year.

Holgate Local School District  
Henry County  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

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The increase in the Ohio School Facilities Commission Fund was due to grant resources received during the year in excess of capital outlay costs within the fiscal year and from a transfer from the Permanent Improvement Fund used for construction activities.

**General Fund Budgeting Highlights**

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

During fiscal year 2010, the District amended its General Fund budget as needed. For revenues, changes from both the original budget to the final budget and from the final budget to actual revenues were not significant. For expenditures, the District increased the final budget; however, final expenditures were more in line with the original budget. The District has a history of appropriating and operating conservatively.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2010, the District had \$20,404,570 invested in capital assets (net of accumulated depreciation), a change of less than 1 percent from the prior fiscal year. The most significant additions for the fiscal year included construction on the roof and the acquisition of a handicapped bus. For further information regarding the District's capital assets, refer to Note 11 to the basic financial statements.

**Debt**

The District's outstanding debt at fiscal year end included long-term loans, in the amount of \$1,772,884, and general obligation bonds, in the amount of \$2,460,000. The District's long-term obligations also include compensated absences. For further information regarding the District's long-term obligations, refer to Note 17 to the basic financial statements.

**Current Issues**

While the District's current five-year forecast reflects positive balances for fiscal years 2011 through 2013, the District will be deficit spending throughout this period and a deficit balance is currently projected for fiscal year 2014.

The District has completed negotiations with the teachers' union and the new contract is in effect from September 1, 2009, through August 31, 2011. The contract provides for base salary increases of 2.5 percent for fiscal year 2010 and 2 percent for fiscal year 2011.

The District has been experiencing declining enrollment and with so many residents' employment tied to the automotive industry and the difficulties this industry in encountering, a continued decline in enrollment is certainly possible.

**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 East Joe E. Brown Avenue, Holgate, Ohio 43527.

Hogate Local School District  
Henry County  
Statement of Net Assets  
June 30, 2010

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$4,177,343
Accounts Receivable	6,605
Accrued Interest Receivable	6,341
Intergovernmental Receivable	28,542
Prepaid Items	1,554
Inventory Held for Resale	6,587
Materials and Supplies Inventory	9,008
Property Taxes Receivable	1,537,725
Income Taxes Receivable	254,965
Nondepreciable Capital Assets	828,701
Depreciable Capital Assets, Net	19,575,869
Total Assets	26,433,240
 <u>Liabilities:</u>	
Accounts Payable	6,522
Contracts Payable	285,305
Accrued Wages and Benefits Payable	333,403
Matured Compensated Absences Payable	19,443
Intergovernmental Payable	121,458
Retainage Payable	18,055
Deferred Revenue	1,226,209
Accrued Interest Payable	17,767
Long-Term Liabilities:	
Due Within One Year	167,909
Due in More Than One Year	4,338,236
Total Liabilities	6,534,307
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	16,171,686
Restricted For:	
Set Asides	28,193
Debt Service	350,180
Capital Projects	1,087,030
Other Purposes	236,005
Unrestricted	2,025,839
Total Net Assets	\$19,898,933

See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Statement of Activities  
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$2,822,995	\$407,184	\$63,159		(\$2,352,652)
Special	543,770		484,153		(59,617)
Vocational	107,136		32,906		(74,230)
Support Services:					
Pupils	246,571		5,000		(241,571)
Instructional Staff	189,432				(189,432)
Board of Education	17,994				(17,994)
Administration	494,890				(494,890)
Fiscal	207,218				(207,218)
Business	8,917				(8,917)
Operation and Maintenance of Plant	453,885				(453,885)
Pupil Transportation	218,955		1,181		(217,774)
Central	90,796		4,573		(86,223)
Non-Instructional Services	241,417	130,762	111,798		1,143
Extracurricular Activities	274,340	80,163		\$5,000	(189,177)
Interest and Fiscal Charges	221,734				(221,734)
Total Governmental Activities	<u>\$6,140,050</u>	<u>\$618,109</u>	<u>\$702,770</u>	<u>\$5,000</u>	<u>(4,814,171)</u>

General Revenues:

Property Taxes Levied for General Purposes	1,028,641
Property Taxes Levied for Classroom Maintenance	17,497
Property Taxes Levied for Debt Service	416,747
Property Taxes Levied for Permanent Improvements	67,982
Income Taxes	673,531
Payment in Lieu of Taxes	1,638
Grants and Entitlements not Restricted to Specific Program:	3,502,246
Interest	44,620
Gifts and Donations	6,100
Miscellaneous	79,006
Total General Revenues	<u>5,838,008</u>
Change in Net Assets	1,023,837
Net Assets at Beginning of Year	18,875,096
Net Assets at End of Year	<u>\$19,898,933</u>

See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Balance Sheet  
Governmental Funds  
June 30, 2010

	General	Bond Retirement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,289,393	\$282,241	\$1,351,746	\$225,770	\$4,149,150
Accounts Receivable	6,605				6,605
Accrued Interest Receivable	6,341				6,341
Interfund Receivable	213				213
Intergovernmental Receivable	2,293	39		26,210	28,542
Prepaid Items	1,554				1,554
Inventory Held for Resale				6,587	6,587
Materials and Supplies Inventory	8,652			356	9,008
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	28,193				28,193
Property Taxes Receivable	1,031,198	417,648		88,879	1,537,725
Income Taxes Receivable	254,965				254,965
<b>Total Assets</b>	<b>\$3,629,407</b>	<b>\$699,928</b>	<b>\$1,351,746</b>	<b>\$347,802</b>	<b>\$6,028,883</b>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$4,748			\$1,774	\$6,522
Contracts Payable			\$285,305		285,305
Accrued Wages and Benefits Payable	304,096			29,307	333,403
Matured Compensated Absences Payable	19,443				19,443
Interfund Payable				213	213
Intergovernmental Payable	110,160			11,298	121,458
Retainage Payable			18,055		18,055
Deferred Revenue	965,357	\$360,936		89,363	1,415,656
<b>Total Liabilities</b>	<b>1,403,804</b>	<b>360,936</b>	<b>303,360</b>	<b>131,955</b>	<b>2,200,055</b>
<u>Fund Balances:</u>					
Reserved for Property Taxes	124,232	56,751		25,383	206,366
Reserved for Textbooks	28,193				28,193
Reserved for Encumbrances	108,678		906,454	16,201	1,031,333
<u>Unreserved, Reported in:</u>					
General Fund	1,964,500				1,964,500
Special Revenue Funds				170,736	170,736
Debt Service Fund		282,241			282,241
Capital Projects Funds			141,932	3,527	145,459
<b>Total Fund Balances</b>	<b>2,225,603</b>	<b>338,992</b>	<b>1,048,386</b>	<b>215,847</b>	<b>3,828,828</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$3,629,407</b>	<b>\$699,928</b>	<b>\$1,351,746</b>	<b>\$347,802</b>	<b>\$6,028,883</b>

See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2010

Total Governmental Fund Balances	\$3,828,828
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	20,404,570
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	6,605	
Accrued Interest Receivable	5,953	
Intergovernmental Receivable	26,000	
Property Taxes Receivable	105,150	
Income Taxes Receivable	45,739	
		189,447

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(17,767)	
Loans Payable	(1,772,884)	
General Obligation Bonds Payable	(2,460,000)	
Compensated Absences Payable	(273,261)	
		(4,523,912)

Net Assets of Governmental Activities	<u><u>\$19,898,933</u></u>
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See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2010

	General	Bond Retirement	Ohio School Facilities Commission	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$1,051,039	\$427,218		\$90,986	\$1,569,243
Income Taxes	666,883				666,883
Payment in Lieu of Taxes	1,638				1,638
Intergovernmental	2,518,991	65,496	\$966,194	629,586	4,180,267
Interest	53,275	551		140	53,966
Tuition and Fees	408,698			5,489	414,187
Extracurricular Activities	3,742			70,932	74,674
Charges for Services				130,762	130,762
Gifts and Donations	6,100				6,100
Miscellaneous	44,134			34,872	79,006
Total Revenues	<u>4,754,500</u>	<u>493,265</u>	<u>966,194</u>	<u>962,767</u>	<u>7,176,726</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	2,265,011			204,465	2,469,476
Special	272,696			251,083	523,779
Vocational	91,480				91,480
Support Services:					
Pupils	239,036				239,036
Instructional Staff	157,325			434	157,759
Board of Education	17,994				17,994
Administration	468,174			13,455	481,629
Fiscal	178,703	15,202		2,464	196,369
Business	8,917				8,917
Operation and Maintenance of Plant	255,154			101,975	357,129
Pupil Transportation	209,234			55,773	265,007
Central	80,026			10,265	90,291
Non-Instructional Services					
Extracurricular Activities	140,984			93,589	234,573
Capital Outlay			415,367	104,619	519,986
Debt Service:					
Principal Retirement		120,000		18,474	138,474
Interest and Fiscal Charges		220,908		1,432	222,340
Total Expenditures	<u>4,384,734</u>	<u>356,110</u>	<u>415,367</u>	<u>1,072,102</u>	<u>6,228,313</u>
Excess of Revenues Over (Under) Expenditures	<u>369,766</u>	<u>137,155</u>	<u>550,827</u>	<u>(109,335)</u>	<u>948,413</u>
<u>Other Financing Sources (Uses):</u>					
Sale of Capital Assets				1,000	1,000
Transfers In			496,773		496,773
Transfers Out				(496,773)	(496,773)
Total Other Financing Sources (Uses)			<u>496,773</u>	<u>(495,773)</u>	<u>1,000</u>
Changes in Fund Balances	369,766	137,155	1,047,600	(605,108)	949,413
Fund Balances at Beginning of Year	1,855,837	201,837	786	820,955	2,879,415
Fund Balances at End of Year	<u>\$2,225,603</u>	<u>\$338,992</u>	<u>\$1,048,386</u>	<u>\$215,847</u>	<u>\$3,828,828</u>

See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement of Activities  
For the Fiscal Year Ended June 30, 2010

Changes in Fund Balances - Total Governmental Funds \$949,413

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

Governmental funds report capital outlays 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 exceeded depreciation in the current fiscal year:

Capital Outlay - Nondepreciable Capital Assets	379,714	
Capital Outlay - Depreciable Capital Assets	177,265	
Capital Contributions	5,000	
Depreciation	<u>(545,694)</u>	16,285

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the book value 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 loss on disposal of capital assets on the statement of activities

Proceeds from the Sale of Capital Assets	(1,000)	
Loss on Disposal of Capital Assets	<u>(27,849)</u>	(28,849)

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

Property Taxes	(38,376)	
Income Taxes	6,648	
Intergovernmental	24,749	
Interest	(9,346)	
Tuition and Fees	<u>(1,514)</u>	(17,839)

Repayment of principal is an expenditure in governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 138,474

Interest is reported as an expenditure when due in governmental funds but is accrued on outstanding debt on the statement of net assets. 606

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (34,253)

Change in Net Assets of Governmental Activities \$1,023,837

See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$859,803	\$859,804	\$969,660	\$109,856
Income Taxes	702,467	702,467	666,398	(36,069)
Payment in Lieu of Taxes	1,500	1,500	1,638	138
Intergovernmental	2,580,089	2,605,216	2,519,930	(85,286)
Interest	43,000	43,000	53,209	10,209
Tuition and Fees	416,595	416,595	409,020	(7,575)
Extracurricular Activities	5,300	6,800	3,742	(3,058)
Gifts and Donations	1,500	1,500	6,100	4,600
Miscellaneous	40,150	40,750	41,925	1,175
Total Revenues	<u>4,650,404</u>	<u>4,677,632</u>	<u>4,671,622</u>	<u>(6,010)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	2,434,220	2,435,522	2,288,380	147,142
Special	325,750	436,202	272,696	163,506
Vocational	100,195	117,032	97,368	19,664
Support Services:				
Pupils	249,821	261,395	248,905	12,490
Instructional Staff	187,838	198,703	166,403	32,300
Board of Education	19,771	18,449	18,031	418
Administration	512,627	510,436	479,606	30,830
Fiscal	170,841	178,750	174,417	4,333
Business	8,500	8,500	8,446	54
Operation and Maintenance of Plant	331,978	343,058	254,664	88,394
Pupil Transportation	206,728	247,169	204,351	42,818
Central	80,002	83,828	79,731	4,097
Extracurricular Activities	147,637	153,910	144,043	9,867
Capital Outlay		101,720	101,720	
Total Expenditures	<u>4,775,908</u>	<u>5,094,674</u>	<u>4,538,761</u>	<u>555,913</u>
Excess of Revenues Over (Under) Expenditures	<u>(125,504)</u>	<u>(417,042)</u>	<u>132,861</u>	<u>549,903</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures			10	10
Advances In		1,300	13,310	12,010
Advances Out	(450)	(11,817)	(12,223)	(406)
Transfers Out	(11,550)	(11,550)		11,550
Total Other Financing Sources (Uses)	<u>(12,000)</u>	<u>(22,067)</u>	<u>1,097</u>	<u>23,164</u>
Changes in Fund Balance	(137,504)	(439,109)	133,958	573,067
Fund Balance at Beginning of Year	2,064,175	2,064,175	2,064,175	
Prior Year Encumbrances Appropriated	5,322	5,322	5,322	
Fund Balance at End of Year	<u>\$1,931,993</u>	<u>\$1,630,388</u>	<u>\$2,203,455</u>	<u>\$573,067</u>

See Accompanying Notes to the Basic Financial Statements

Hogate Local School District  
Henry County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2010

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$123,643	\$17,702
<u>Liabilities:</u>		
Due to Students		\$17,702
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$123,643	

See Accompanying Notes to the Basic Financial Statements

Holgate Local School District  
Henry County  
Statement of Change in Fiduciary Net Assets  
Private Purpose Trust Fund  
For the Fiscal Year Ended June 30, 2010

Additions:

Interest \$3,578

Deductions:

Non-Instructional Services 3,600

Change in Net Assets (22)

Net Assets at Beginning of Year 123,665

Net Assets at End of Year \$123,643

See Accompanying Notes to the Basic Financial Statements

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Holgate Local School District  
Henry County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 1 - Description of the District and Reporting Entity**

Holgate Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal guidelines.

The District was established in 1892. The District serves an area of approximately fifty-four square miles. It is located in Henry County and includes all of the Village of Holgate and portions of Flatrock, Marion, Monroe, and Pleasant Townships. The District is the 595<sup>th</sup> largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twenty-four classified employees, thirty-nine certified teaching personnel, and four administrative employees who provide services to four hundred seventy-five students and other community members. The District currently operates one instructional building.

**Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Holgate Local School 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. There are no component units of the Holgate Local District.

The District participates in four jointly governed organizations, three insurance pools, and is associated with a related organization. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northwest Ohio Educational Council Insurance Pool, the Northern Buckeye Education Council Employee Insurance Benefits Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Holgate Community Library. These organizations are presented in Notes 20, 21, and 22 to the basic financial statements.

The basic financial statements of Holgate Local School 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 financial 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.

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

### **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. These statements usually distinguish between those activities of the District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charge\*). However, the District has no business-type activities.

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

### **Fund Financial Statements**

During the fiscal 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. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

## **B. Fund Accounting**

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District are divided into two categories, governmental and fiduciary.

### **Governmental Funds**

Governmental funds are those through which most governmental functions of the District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The District's three major funds are the General Fund, the Bond Retirement debt service fund, and the Ohio Schools Facilities Commission capital projects fund.

**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 balance 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 debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on loans and on general obligation bonds issued for the construction of new facilities.

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

Ohio School Facilities Commission Fund - The Ohio School Facilities Commission capital projects fund accounts for the state and local share of the construction of District buildings.

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

**Fiduciary Funds**

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

**C. Measurement Focus**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of 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) in total net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**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 basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis, 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.

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

**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 legal level of budgetary control selected by the Board is at the object level for the General Fund and the fund level in all other funds. Budgetary allocations at the function level in the General Fund and at the function and object level within all other funds are made by the District Treasurer.

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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 District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2010, investments consisted of nonnegotiable certificates of deposit, which are reported at cost.

The Board of Education allocates interest according to State statute. Interest revenue credited to the General Fund during fiscal year 2010 was \$53,275, which includes \$12,331 assigned from other District funds.

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

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

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies and donated and purchased food.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of textbooks and instructional materials.

**J. Capital Assets**

All of the District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 - 40 years
Buildings and Building Improvements	20 - 75 years
Furniture, Fixtures, and Equipment	5 - 40 years
Vehicles	15 years

**K. Interfund Assets/Liabilities**

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

**L. 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 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.

**Note 2 - Summary of Significant Accounting Policies** (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. The District records a liability for accumulated unused sick leave for all employees after ten years of service.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**M. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Long-term loans and bonds are recognized as liabilities on the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing 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. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants.

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**O. Fund Balance Reserves**

The District reserves those portions of fund balance 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, textbooks, and encumbrances.

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

**P. Capital Contributions**

Capital contributions arise from outside contributions of capital assets.

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

**Q. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments made for interfund services provided and used are not eliminated.

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.

**R. Estimates**

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

**Note 3 - Changes in Accounting Principles**

For fiscal year 2010, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

**Note 3 - Change in Accounting Principles** (continued)

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

**Note 4 - Accountability and Compliance**

**A. Accountability**

At June 30, 2010, the Latchkey, Education Management Information System, District Stabilization, Title I, and Title VI-R special revenue funds had deficit fund balances, in the amount of \$126, \$710, \$21,375, \$54, and \$30, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**B. Compliance**

Ohio Revised Code Section 135.18 states that the District must require a depository to provide as security an amount equal to the funds on deposit at all times. Deposits with the Hamler State Bank exceeded the security provided by \$19,801.

**Note 5 - 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 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 the GAAP basis are as follows:

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).

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

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$369,766
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2009, Received in Cash FY 2010	254,273
Accrued FY 2010, Not Yet Received in Cash	(336,045)
Expenditure Accruals:	
Accrued FY 2009, Paid in Cash FY 2010	(479,969)
Accrued FY 2010, Not Yet Paid in Cash	438,447
Cash Adjustments:	
Unrecorded Activity FY 2009	4,357
Unrecorded Activity FY 2010	(5,453)
Prepaid Items	(37)
Materials and Supplies Inventory	(3,790)
Advances In	13,310
Advances Out	(12,223)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(108,678)
Budget Basis	\$133,958

**Note 6 - Deposits and Investments**

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

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

Inactive deposits are public deposits 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.

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,377,724 of the District's bank balance of \$4,351,453 was exposed to custodial credit risk because it 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 District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

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**Note 7 - Receivables**

Receivables at June 30, 2010, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, property taxes, and income taxes. 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. All receivables, except property taxes and income taxes, are expected to be collected within one year. Property taxes and income taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
State of Ohio	\$2,293
Bond Retirement Fund	
State of Ohio	39
Other Governmental Funds	
Classroom Facilities	2
Title II-D	343
Title I	25,713
Safe and Drug Free School	146
Permanent Improvement	6
Total Other Governmental Funds	26,210
Total Intergovernmental Receivables	\$28,542

**Note 8 - 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 property, public utility property, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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**Note 8 - Property Taxes** (continued)

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2010, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2010, was \$124,232 in the General Fund, \$2,476 in the Classroom Maintenance special revenue fund, \$56,751 in the Bond Retirement debt service fund, and \$22,907 in the Permanent Improvements capital projects fund. The amount available as an advance at June 30, 2009, was \$42,853 in the General Fund, \$2,132 in the Classroom Maintenance special revenue fund, \$18,271 in the Bond Retirement debt service fund, and \$8,306 in the Permanent Improvements capital projects fund.

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

The assessed values upon which fiscal year 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$39,731,110	94.87%	\$39,799,150	94.90%
Industrial/Commercial	2,074,470	4.95	2,053,390	4.90
Public Utility	75,280	0.18	87,270	0.20
Total Assessed Value	<u>\$41,880,860</u>	<u>100.00%</u>	<u>\$41,939,810</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$43.20		\$43.04	

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**Note 9 - Income Taxes**

The District levies a voted tax of 1.5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**Note 10 - Payment in Lieu of Taxes**

According to State law, Henry County has entered into agreements with a number of property owners under which Henry County has granted property tax exemptions to those property owners. The property owners have agreed to make payments which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been exempted. The agreements provide for a portion of these payments to be made to the District. The property owner's contractually promise to make these payments in lieu of taxes until the agreement expires.

**Note 11 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$448,987			\$448,987
Construction in Progress		\$379,714		379,714
Total Nondepreciable Capital Assets	448,987	379,714		828,701
Depreciable Capital Assets				
Land Improvements	1,924,403			1,924,403
Buildings and Building Improvements	18,327,651			18,327,651
Furniture, Fixtures, and Equipment	1,394,378	20,280	(45,715)	1,368,943
Vehicles	463,942	161,985	(87,381)	538,546
Total Depreciable Capital Assets	22,110,374	182,265	(133,096)	22,159,543
Less Accumulated Depreciation				
Land Improvements	(260,634)	(86,493)		(347,127)
Buildings and Building Improvements	(1,113,167)	(337,761)		(1,450,928)
Furniture, Fixtures, and Equipment	(494,542)	(95,635)	36,769	(553,408)
Vehicles	(273,884)	(25,805)	67,478	(232,211)
Total Accumulated Depreciation	(2,142,227)	(545,694)	104,247	(2,583,674)
Depreciable Capital Assets, Net	19,968,147	(363,429)	(28,849)	19,575,869
Governmental Activities Capital Assets, Net	\$20,417,134	\$16,285	(\$28,849)	\$20,404,570

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**Note 11 - Capital Assets** (continued)

The District accepted contributions of depreciable capital assets for governmental activities with a fair value of \$5,000 during fiscal year 2010.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$270,518
Special	19,991
Vocational	19,306
Support Services:	
Pupils	6,906
Instructional Staff	16,340
Administration	19,317
Fiscal	10,330
Operation and Maintenance of Plant	89,561
Pupil Transportation	25,805
Non-Instructional Services	25,103
Extracurricular Activities	42,517
Total Depreciation Expense	\$545,694

**Note 12 - Interfund Assets/Liabilities**

At June 30, 2010, the General Fund had an interfund receivable from other governmental funds, in the amount of \$213, for short-term loans made to those funds.

**Note 13 - Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District contracted for the following insurance coverage.

Coverage provided by Selective Insurance Company of South Carolina is as follows:

General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Vehicle Liability	1,000,000

Coverage provided by Federal Insurance Company:

Building and Contents	50,000,000
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Coverage provided by The Travelers Insurance Company:

Excess Property	\$5,000,000
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**Note 13 - Risk Management** (continued)

Coverage provided by American Alternative Insurance Corporation:

Umbrella	10,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2010, the District participated in the Northwest Ohio Educational Council Insurance Pool (Pool), an insurance purchasing pool. Each participant enters into an individual agreement with the Pool for insurance coverage and pays annual premiums to the Pool based on the types and limits of coverage and deductibles selected by the participant.

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, vision, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to all 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.

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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 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 14 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

Plan Description - The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member

**Note 14 - Defined Benefit Pension Plans** (continued)

contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 was \$271,987, \$275,847, and \$273,085 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DCP and CP for fiscal year 2010 are not yet available.

**B. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement 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 Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 was \$63,415, \$45,397, and \$45,558 respectively; 30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Note 14 - Defined Benefit Pension Plans** (continued)

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2010, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 15 - Postemployment Benefits**

**A. State Teachers Retirement System**

Plan Description - The District contributes to a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$20,922, \$21,219, and \$21,027 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. School Employees Retirement System**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was \$7,588.

**Note 15 - Postemployment Benefits** (continued)

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

The District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$2,283, \$20,776, and \$20,790 respectively; 30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The District's contribution for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 was \$2,283, \$3,746, and \$3,283 respectively; 30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**Note 16 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred ten days for certified employees and two hundred days for classified employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of fifty-two and one-half days for certified employees and fifty days for classified employees.

**B. Health Care Benefits**

The District provides medical, dental, vision, and life insurance to most employees through the Northern Buckeye Education Council Employee Insurance Benefits Program.

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**Note 17 - Long-Term Obligations**

Changes in the District's long-term obligations during fiscal year 2010 were as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10	Amounts Due Within One Year
<b>Governmental Activities</b>					
FY09 Loan Payable 3.3%	\$47,358		\$18,474	\$28,884	\$19,098
FY06 Loan Payable 5.06%	1,764,000		20,000	1,744,000	20,000
Total Loans Payable	1,811,358		38,474	1,772,884	39,098
<b>General Obligation Bonds</b>					
<b>FY02 School Facilities Construction and Improvement Bonds</b>					
Serial Bonds 2.25 - 5 %	820,000		100,000	720,000	105,000
Term Bonds 4.9 - 6 %	1,740,000			1,740,000	
Total General Obligation Bonds	2,560,000		100,000	2,460,000	105,000
Compensated Absences Payable	239,008	\$64,059	29,806	273,261	23,811
Total Governmental Activities Long-Term Obligations	<u>\$4,610,366</u>	<u>\$64,059</u>	<u>\$168,280</u>	<u>\$4,506,145</u>	<u>\$167,909</u>

FY09 Loan Payable - On September 15, 2008, the District obtained a loan, in the amount of \$56,376, to purchase a new bus. The loan was issued for a three year period, with final maturity during fiscal year 2012. The loan is being retired from the Permanent Improvements capital projects fund.

FY06 Loan Payable - On October 7, 2005, the District obtained a loan, in the amount of \$1,800,000, for constructing school facilities. The loan was issued for a twenty-nine year period, with final maturity during fiscal year 2035. The loan is being retired from the Bond Retirement debt service fund.

FY02 School Facilities Construction and Improvement Bonds - On April 15, 2002, the District issued \$3,069,000 in voted general obligation bonds for the construction of a new elementary school and middle school. The bond issue included serial and term bonds, in the amount of \$1,329,000 and \$1,740,000, respectively. The bonds were issued for a twenty-four year period, with final maturity during fiscal year 2026. The bonds will be retired through the Bond Retirement debt service fund

The term bonds maturing on December 1, 2016, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2015, in the amount of \$130,000 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2016), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1 in the year and the respective principal amounts as follows:

Year	Amount
2018	\$165,000
2019	175,000
2020	190,000
2021	210,000

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**Note 17 - Long-Term Obligations** (continued)

The remaining principal, in the amount of \$225,000, will be paid at stated maturity on December 1, 2022.

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1, 2023, in the amount of \$240,000 (with the balance of \$265,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The serial bonds maturing after December 1, 2012, are subject to redemption, at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment date on or after December 1, 2012, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The District's overall debt margin was (\$119,309) with an unvoted debt margin of \$41,940 at June 30, 2010. In fiscal year 2007, the District was authorized by the Ohio Superintendent of Public Instruction to exceed its overall limitation because it has been designated as a "special needs" District.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2010, were as follows:

FY 09 Loan Payable			
Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$19,098	\$805	\$19,903
2012	9,786	169	9,955
Total	\$28,884	\$974	\$29,858

Holgate Local School District  
Henry County  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 17 - Long-Term Obligations** (continued)

FY 06 Loan Payable			
Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$20,000	\$88,261	\$108,261
2012	25,000	87,116	112,116
2013	30,000	85,715	115,715
2014	44,000	83,832	127,832
2015	46,000	81,542	127,542
2016-2020	265,000	369,456	634,456
2021-2025	337,000	293,210	630,210
2026-2030	430,000	195,965	625,965
2031-2035	547,000	72,304	619,304
Total	\$1,744,000	\$1,357,401	\$3,101,401

General Obligation Bonds				
Fiscal Year Ending June 30,	Serial	Term	Interest	Total
2011	\$105,000		\$128,967	\$233,967
2012	110,000		124,182	234,182
2013	125,000		118,832	243,832
2014	110,000		113,401	223,401
2015	120,000		107,993	227,993
2016-2020	150,000	\$610,000	434,188	1,194,188
2021-2025		1,130,000	165,056	1,295,056
Total	\$720,000	\$1,740,000	\$1,192,619	\$3,652,619

**Note 18 - Set Asides**

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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2010.

	Textbooks	Capital Improvements
Balance June 30, 2009	\$32,799	
Current Year Set Aside Requirement	80,046	\$80,046
Current Year Offsets		(70,439)
Qualifying Expenditures	(84,652)	(\$9,607)
Balance June 30, 2010	\$28,193	

**Note 19 - Interfund Transfers**

During fiscal year 2010, other governmental funds made transfers to the Ohio School Facilities Commission capital projects fund, in the amount of \$496,773, to account for the local share of construction activities.

**Note 20 - Jointly Governed Organizations**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities 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 educational entities. The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Council. During fiscal year 2010, the District paid \$59,470 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 six 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. Financial information can be obtained from the Northern Buckeye Educational Council, 209 Nolan Parkway, Archbold, Oh 43502.

**C. Four County Career Center**

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Career Center possesses its own budgeting and taxing authority. The degree of control exercised by the District is limited to its representation on the Board. Financial information can be obtained from the Four County Career Center, 22-900 State Route 34, Archbold, Ohio 43502.

**Note 20 - Jointly Governed Organizations** (continued)

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**Note 21 - Insurance Pools**

**A. Northwest Ohio Educational Council Insurance Pool**

The District participates in the Northwest Ohio Educational Council Insurance Pool (Pool), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Pool is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Pool's business and affairs are conducted by a nine member board consisting of superintendents and treasurers. Financial information can be obtained from the Lucas County Educational Service Center, 2275 Collingwood Boulevard, Toledo, Ohio, 43620.

**B. Northern Buckeye Education Council Employee Insurance Benefits Program**

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Program is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

**C. Northern Buckeye Education Council 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 (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Note 22 - Related Organization**

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 Board of Education. The Board of Trustees possesses its own budgeting and contracting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, 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, 204 Railway Avenue, Holgate, Ohio 43527.

**Note 23 - 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, 2010.

**B. Litigation**

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

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# Dave Yost • Auditor of State

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

Holgate Local School District  
Henry County  
801 East Joe E. Brown Avenue  
Holgate, Ohio 43527

To the Board of Education:

We have audited the 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 3, 2012.

We intend this report solely for the information and use of management, the audit committee, Board of Education and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

February 3, 2012

**HOLGATE LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-1	Ohio Revised Code §3318, OSFC payment not recorded in local share fund and construction manager costs not recorded.	Yes	
2009-2	Ohio Revised Code §135.13, certificates of deposit of interim monies matured after year	Yes	
2009-3	Ohio Revised Code §5705.36(A), Official certificate was not amended for revenue deficiencies	Yes	

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# Dave Yost • 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  
FEBRUARY 21, 2012**