



**VILLAGE OF HOLTGATE
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005



**Auditor of State
Betty Montgomery**

VILLAGE OF HOLGATE
HENRY COUNTY

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**Auditor of State
Betty Montgomery**

Village of Holgate
Henry County
327 Railway Avenue, P.O. Box 217
Holgate, Ohio 43527-0217

To the Village of Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005, interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

October 19, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Holgate
Henry County
327 Railway, P.O. Box 217
Holgate, Ohio 43527-0217

To the Village of Council:

We have audited the accompanying financial statements of the Village of Holgate, Henry County, (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion 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 opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position and cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Holgate, Henry County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the Village'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.



Betty Montgomery
Auditor of State

October 19, 2006

**VILLAGE OF HOLGATE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$146,291	\$33,193		\$83,878
Intergovernmental Receipts	50,633	97,535		148,168
Charges for Services		9,641		9,641
Fines, Licenses, and Permits	1,986			1,986
Earnings on Investments	12,403	204		12,607
Miscellaneous	9,055	1,250		10,305
	<u>220,368</u>	<u>141,823</u>		<u>83,878</u>
Total Cash Receipts				446,069
Cash Disbursements:				
Current:				
Security of Persons and Property	87,491	18,201		105,692
Leisure Time Activities		33,011		33,011
Community Environment	3,806			3,806
Transportation	3,286	87,115		90,401
General Government	125,901	426		126,327
Capital Outlay	10,069			55,374
	<u>230,553</u>	<u>138,753</u>		<u>55,374</u>
Total Cash Disbursements				424,680
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(10,185)</u>	<u>3,070</u>		<u>28,504</u>
Other Financing Receipts and (Disbursements):				
Other Financing Sources				35,230
Other Financing Uses	(8,552)			(8,552)
	<u>(8,552)</u>			<u>35,230</u>
Total Other Financing Receipts and (Disbursements)				26,678
Total Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(18,737)	3,070		63,734
Fund Cash Balances, January 1	57,679	165,220	\$53,212	37,712
	<u>57,679</u>	<u>165,220</u>	<u>\$53,212</u>	<u>37,712</u>
Fund Cash Balances, December 31	<u>\$38,942</u>	<u>\$168,290</u>	<u>\$53,212</u>	<u>\$101,446</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF HOLGATE
HENRY COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$265,036
Miscellaneous	4,390
	<hr/>
Total Operating Cash Receipts	269,426
	<hr/>
Operating Cash Disbursements:	
Personal Services	100,841
Transportation	810
Contractual Services	22,736
Supplies and Materials	97,062
Capital Outlay	81,127
	<hr/>
Total Operating Cash Disbursements	302,576
	<hr/>
Operating Loss	(33,150)
	<hr/>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	7,250
	<hr/>
Non-Operating Cash Disbursements:	
Debt Service	17,446
Other Non-Operating Cash Disbursements	2,355
	<hr/>
Total Non-Operating Cash Disbursements	19,801
	<hr/>
Total Cash Disbursements Over Cash Receipts	(45,701)
	<hr/>
Fund Cash Balances, January 1	402,944
	<hr/>
Fund Cash Balances, December 31	<u><u>\$357,243</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$138,443	\$34,068		\$78,874
Intergovernmental Receipts	59,199	53,878		136,007
Charges for Services		6,880		6,880
Fines, Licenses, and Permits	2,863			2,863
Earnings on Investments	7,534	167		7,701
Miscellaneous	7,801	700		8,501
	<u>215,840</u>	<u>95,693</u>		<u>214,881</u>
Total Cash Receipts				526,414
Cash Disbursements:				
Current:				
Security of Persons and Property	87,740	18,527		106,267
Public Health Services		48,340		48,340
Community Environment	3,498			3,498
Transportation	28,042	58,996		87,038
General Government	133,771	240		134,011
Capital Outlay	10,974			196,235
	<u>264,025</u>	<u>126,103</u>		<u>196,235</u>
Total Cash Disbursements				586,363
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(48,185)</u>	<u>(30,410)</u>		<u>18,646</u>
Other Financing Receipts and (Disbursements):				
Other Financing Sources	35			6,144
Other Financing Uses	(4,627)			(4,627)
	<u>(4,592)</u>			<u>6,144</u>
Total Other Financing Receipts and (Disbursements)				1,552
Total Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(52,777)</u>	<u>(30,410)</u>		<u>24,790</u>
Fund Cash Balances, January 1	<u>110,456</u>	<u>195,630</u>	<u>\$53,212</u>	<u>12,922</u>
Fund Cash Balances, December 31	<u>\$57,679</u>	<u>\$165,220</u>	<u>\$53,212</u>	<u>\$37,712</u>
				<u>\$313,823</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$330,921
Operating Cash Disbursements:	
Personal Services	77,205
Transportation	997
Contractual Services	21,092
Supplies and Materials	83,401
Capital Outlay	15,036
Total Operating Cash Disbursements	197,731
Operating Income	133,190
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	5,875
Non-Operating Cash Disbursements:	
Debt Service	969
Other Non-Operating Cash Disbursements	2,519
Total Non-Operating Cash Disbursements	3,488
Total Cash Receipts Over Cash Disbursements	135,577
Fund Cash Balances, January 1	267,367
Fund Cash Balances, December 31	\$402,944

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Holgate, Henry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services including road maintenance and repair, water and sewer utilities, park operations, and police services. The Village contracts with the Henry County Sheriff's department to provide security of persons and property. The Village contracts with Pleasant Township to receive fire protection services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

Certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Street Light Fund -This fund receives real estate and personal property tax monies to cover the cost of maintaining street lights.

3. Debt Service Fund

This fund accounts for resources the Village accumulates to pay bond and note debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Capital Improvement Fund - This fund receives income tax monies and grant proceeds for the construction and repairs of major capital projects.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH

The Village maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2005	2004
Demand deposits	\$178,148	\$176,100
Certificates of deposit	540,885	540,567
Total deposits	719,033	716,667
Cash on Hand	100	100
Total Deposits and Cash on Hand	719,133	716,767

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$200,000	\$220,368	\$20,368
Special Revenue	76,000	141,823	65,823
Capital Projects	70,000	119,108	49,108
Enterprise	300,000	276,676	(23,324)
Total	\$646,000	\$757,975	\$111,975

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$261,802	\$239,105	\$22,697
Special Revenue	237,097	138,753	98,344
Debt Service	53,212		53,212
Capital Projects	107,713	55,374	52,339
Enterprise	702,944	322,377	380,567
Total	<u>\$1,362,768</u>	<u>\$755,609</u>	<u>\$607,159</u>

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$200,010	\$215,875	\$15,865
Special Revenue	63,838	95,693	31,855
Capital Projects	83,162	221,025	137,863
Fiduciary	223,000	336,796	113,796
Total	<u>\$570,010</u>	<u>\$869,389</u>	<u>\$299,379</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$310,456	\$268,652	\$41,804
Special Revenue	259,468	126,103	133,365
Debt Service	53,212		53,212
Capital Projects	134,861	196,235	(61,374)
Enterprise	490,367	201,219	289,148
Total	<u>\$1,248,364</u>	<u>\$792,209</u>	<u>\$456,155</u>

Contrary to Ohio law, 38 percent of disbursement transactions tested were not certified by the fiscal officer at the time the commitment was incurred.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Issue II Fund by \$122,845 for the year ended December 31, 2004.

Contrary to Ohio law, the Village did not properly allocate Homestead and Rollback to the Special Revenue Funds or Issue 2 monies to the Capital Projects Fund.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$159,266	2.00%
Ohio Public Works Commission Loan #1	65,766	
Ohio Public Works Commission Loan #2	26,767	
Total	<u><u>\$251,799</u></u>	

The Ohio Water Development Authority (OWDA) loan relates to a water tower. The Village has received \$188,878 in loans from OWDA, and has a loan balance of \$159,266 at 12/31/05. The loans will be repaid in semiannual installments of \$5,752 including interest, over 20 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) Loan #1 relates to storm sewer replacement and curb reconstruction. The OPWC has approved \$73,074 in interest free loans to the Village for this project. The loans will be repaid in semiannual installments of \$1,827, over 20 years. The loans are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT – (Continued)

The Ohio Public Works Commission (OPWC) Loan #2 relates to a bridge replacement project. The OPWC has approved \$28,938 in interest free loans to the Village for this project. The loans will be repaid in semiannual installments of \$723 over 21 years. The loans are collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>OWDA Loan</u>	<u>OPWC Loan #1</u>	<u>OPWC Loan #2</u>
2006	\$5,662	\$3,654	\$1,447
2007	11,505	3,654	1,447
2008	11,505	3,654	1,447
2009	11,505	3,654	1,447
2010	11,505	3,654	1,447
2011-2015	57,524	18,270	7,235
2016-2020	57,524	18,270	7,235
2021-2023	23,009	10,956	5,062
Total	<u>\$189,739</u>	<u>\$65,766</u>	<u>\$26,767</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

8. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

**VILLAGE OF HOLGATE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

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**Auditor of State
Betty Montgomery**

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

Village of Holgate
Henry County
327 Railway Avenue, P.O. Box 217
Holgate, Ohio 43527-0217

To the Village Council:

We have audited the financial statements of the Village of Holgate, Henry County, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 19, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Village's management dated October 19, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001, 2005-002 and 2005-003. In a separate letter to the Village's management dated October 19, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 19, 2006

**VILLAGE OF HOLGATE
HENRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

38 percent transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2005-001
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-002

Noncompliance Citation

Chapter 5705 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more than it expects to receive in revenue. In order to accomplish this end, all appropriations must be accounted for and from each appropriation fund. While federal and state loans and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded. R.C. 5705.42. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making the original appropriation. R.C. 5705.40. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measure also requires legislative action. R.C. 5705.38.

In 2004, the Village was the beneficiary of \$122,845 of Issue II money sent directly to the vendor by the Ohio Public Works Commission (OPWC). This activity was not recorded in the Village's accounting ledgers. Since OPWC paid the invoices, the Village did not receive this cash. However, Auditor of State Bulletins 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements when the Village applies for a project and when the Village is ultimately going to receive the benefit/ownership of the asset of the project. These funds were not appropriated causing expenditures to exceed appropriations in the Issue II Fund by \$122,845 in 2004, contrary to R.C. 5705.41(B) which requires all expenditures to be appropriated. The accompanying financial statements were adjusted to reflect these amounts in a Capital Projects fund.

We recommend the Village follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Village receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County budget commission, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the Village's books.

**FINDING NUMBER 2005-002
 (Continued)**

Officials' Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code § 5705.10(D) requires all revenue derived from a source other than the general property tax and which the law requires be used for a particular purpose shall be paid into a special fund for such purpose.

The Village has special levies for the purpose of funding costs related to park funds, swimming pool operations and street lighting. Homestead and Rollback monies applicable to these levies were credited entirely to the General Fund instead of being divided. In addition, Issue 2 monies were not posted to the Capital Projects Fund. The Village did not properly allocate Homestead and Rollback or Issue 2 monies in the following funds:

Fiscal Year	Fund	Posted Amounts	Audited Amounts	Variance
Homestead & Rollback:				
2005	General Fund	\$6,828	\$2,705	(\$4,123)
2005	Park Fund		649	649
2005	Swimming Pool Fund		1,516	1,516
2005	Street Light Fund		1,958	1,958
2004	General Fund	7,012	2,779	(4,233)
2004	Park Fund		667	667
2004	Swimming Pool Fund		1,556	1,556
2004	Street Light Fund		2,010	2,010
Issue 2:				
2004	Permissive Tax Fund	13,162		(13,162)
2004	Capital Projects		13,162	13,162

The accompanying financial statements were adjusted to reflect these amounts.

Posting of cash assets to improper funds could cause management to draw incorrect conclusions regarding its fiscal position.

We recommend the fiscal officer and the Board review financial records to ensure that amounts are reflected in the appropriate funds and that there are sufficient funds to pay obligations.

Officials' Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-004

Reportable Condition – Budgeted Receipts

Sound accounting practices provide that budgeted revenues, based on amounts formally reviewed and approved by the County Budget Commission be posted into the Village's accounting system and used by management monitor financial operations. No estimated amounts of revenues were posted in the Village's revenue ledger during the audit period. Failure to ensure that estimated revenue amounts are adopted into the accounting ledgers could make it difficult for management to make informed decisions regarding whether the Village's actual receipts are sufficient to support appropriated disbursements and possibly contribute to financial instability.

Management should post the amounts of estimated receipts according to the amended certificate(s) of estimated resources filed with the County Auditor into the Village's accounting system. As part of the monitoring process, management should then review its records to ensure that all budgeted amounts are properly reflected in the appropriate accounts and that actual receipts are sufficient to cover anticipated disbursements.

Officials' Response

We did not receive a response from Officials to this finding.

**VILLAGE OF HOLGATE
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Revised Code § 5705.41 (D) for not issuing purchase orders for all purchases	No	Not Corrected. Will repeat as finding 2005-001



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VILLAGE OF HOLGATE

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
NOVEMBER 9, 2006**