



**Auditor of State
Betty Montgomery**

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Otsego Local School District
Wood County
18505 Tontogany Creek Road
P.O. Box 290
Tontogany, Ohio 43565-0290

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Otsego Local School District (the School District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Otsego Local School District, Wood County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust 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 January 16, 2003 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 16, 2003

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,583,261	\$164,815	\$46,289	\$299,418
Cash and Cash Equivalents: In Segregated Accounts				
Receivables:				
Taxes	4,580,577		29,217	144,230
Accounts	10,880	171		
Intergovernmental		6,730		
Accrued Interest	110			
Interfund Receivable	3,773			
Materials and Supplies Inventory				
Prepaid Items	7,722			
Fixed Assets				
Accumulated Depreciation				
Other Debits:				
Amount Available in Debt Service Fund for Retirement of Long-Term Obligations				
Amount to be Provided From General Government Resources				
Total Assets and Other Debits	\$7,186,323	\$171,716	\$75,506	\$443,648

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$29,212	\$6,810	\$65,592			\$3,195,397
		2,980			2,980
					4,754,024
					11,051
					6,730
					110
5,057					3,773
					5,057
					7,722
101,966 (77,116)			\$9,266,197		9,368,163 (77,116)
				\$46,289	46,289
				1,239,544	1,239,544
\$59,119	\$6,810	\$68,572	\$9,266,197	\$1,285,833	\$18,563,724

(Continued)

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	\$33,421			
Accrued Wages and Benefits	771,943	\$37,316		
Compensated Absences Payable	74,872			
Interfund Payable		3,129		
Intergovernmental Payable	144,734	7,457		
Deferred Revenue	4,087,090	1,160	\$26,544	\$130,778
Due to Students				
Capital Leases Payable				
Energy Conservation Loan Payable				
General Obligation Bonds Payable				
Total Liabilities	5,112,060	49,062	26,544	130,778
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	116,607	1,905		
Reserved for Prepaid Items	7,722			
Reserved for Debt Service Principal			46,289	
Reserved for Contributions				
Reserved for Property Taxes	493,487		2,673	13,452
Unreserved, Undesignated	1,456,447	120,749		299,418
Total Fund Equity and Other Credits	2,074,263	122,654	48,962	312,870
Total Liabilities, Fund Equity and Other Credits	\$7,186,323	\$171,716	\$75,506	\$443,648

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$6,343					\$39,764
16,782					826,041
15,713				\$705,726	796,311
644					3,773
22,274				95,028	269,493
3,334					4,248,906
		\$39,226			39,226
				80,079	80,079
				70,000	70,000
				335,000	335,000
65,090		39,226		1,285,833	6,708,593
			\$9,266,197		9,266,197
(5,971)	\$6,810				839
					118,512
					7,722
		27,980			46,289
					27,980
					509,612
		1,366			1,877,980
(5,971)	6,810	29,346	9,266,197		11,855,131
\$59,119	\$6,810	\$68,572	\$9,266,197	\$1,285,833	\$18,563,724

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Intergovernmental	\$5,919,688	\$469,532
Interest	102,962	
Tuition and Fees	178,335	
Rent	742	
Extracurricular Activities		78,439
Gifts and Donations	5,191	21,049
Customer Services		810
Property and Other Local Taxes	5,142,361	
Miscellaneous	83,642	27,174
Total Revenues	11,432,921	597,004
Expenditures:		
Instruction:		
Regular	5,155,573	76,175
Special	1,159,794	260,746
Vocational	340,473	
Other	55,712	
Support services:		
Pupils	499,168	23,398
Instructional Staff	313,031	23,006
Board of Education	21,697	
Administration	1,026,991	56,460
Fiscal	270,084	625
Business	743	
Operation and Maintenance of Plant	811,453	
Pupil Transportation	668,822	5,249
Central	117,521	32,654
Non-Instructional Services	98	
Extracurricular activities	178,124	124,805
Capital Outlay	45,308	
Debt Service		
Debt Service - Principal		29,606
Debt Service - Interest		6,316
Total Expenditures	10,664,592	639,040
Excess of Revenues Over (Under) Expenditures	768,329	(42,036)
Other Financing Sources and Uses		
Operating Transfers In		35,000
Proceeds from Sale of Fixed Assets	3,506	
Refund of Prior Year Expenditures	16,331	
Operating Transfers Out	(93,000)	
Total Other Financing Sources (Uses)	(73,163)	35,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	695,166	(7,036)
Fund Balance at Beginning of Year	1,379,097	129,690
Fund Balance at End of Year	\$2,074,263	\$122,654

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

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$3,987	\$68,990		\$6,462,197
			102,962
			178,335
			742
			78,439
		\$1,506	27,746
			810
103,612	146,204		5,392,177
			110,816
<u>107,599</u>	<u>215,194</u>	<u>1,506</u>	<u>12,354,224</u>
	5,889		5,237,637
			1,420,540
			340,473
			55,712
			522,566
			336,037
			21,697
	30,000		1,113,451
284	1,481		272,474
			743
			811,453
			674,071
			150,175
		1,506	1,604
			302,929
	168,809		214,117
52,420			82,026
23,268			29,584
<u>75,972</u>	<u>206,179</u>	<u>1,506</u>	<u>11,587,289</u>
<u>31,627</u>	<u>9,015</u>		<u>766,935</u>
			35,000
			3,506
			16,331
			(93,000)
			(38,163)
31,627	9,015		728,772
17,335	303,855	1,366	1,831,343
<u>\$48,962</u>	<u>\$312,870</u>	<u>\$1,366</u>	<u>\$2,560,115</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	General		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$5,832,003	\$5,919,688	\$87,685
Interest	144,238	102,852	(41,386)
Tuition and Fees	122,290	178,088	55,798
Rent	1,600	742	(858)
Extracurricular Activities			
Gifts and Donations	10,000	5,740	(4,260)
Customer Services			
Property and Other Local Taxes	5,084,429	5,077,076	(7,353)
Miscellaneous	111,168	83,520	(27,648)
Total Revenues	11,305,728	11,367,706	61,978
Expenditures:			
Current:			
Instruction:			
Regular	5,614,090	5,107,315	506,775
Special	1,302,451	1,207,947	94,504
Vocational	366,253	341,854	24,399
Other	69,465	56,187	13,278
Support services:			
Pupils	577,197	503,586	73,611
Instructional Staff	335,216	316,258	18,958
Board of Education	28,321	23,650	4,671
Administration	1,130,078	1,011,111	118,967
Fiscal	284,130	269,852	14,278
Business	3,028	743	2,285
Operation and Maintenance of Plant	1,042,095	837,349	204,746
Pupil Transportation	886,010	731,214	154,796
Central	120,000	117,521	2,479
Non-Instructional Services	130	98	32
Extracurricular activities	255,268	190,593	64,675
Capital Outlay	59,562	47,808	11,754
Debt Service			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	12,073,294	10,763,086	1,310,208
Excess of Revenues Over (Under) Expenditures	(767,566)	604,620	1,372,186
Other Financing Sources and Uses			
Operating Transfers In	410,000		(410,000)
Proceeds from Sale of Fixed Assets	2,000	3,506	1,506
Refund of Prior Year Expenditures	15,000	11,142	(3,858)
Advances In			
Other Financing Sources			
Operating Transfers Out	(195,000)	(93,000)	102,000
Advances Out	(5,000)	(3,129)	1,871
Total Other Financing Sources (Uses)	227,000	(81,481)	(308,481)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(540,566)	523,139	1,063,705
Fund Balances at Beginning of Year	1,773,552	1,773,552	
Prior Year Encumbrances Appropriated	137,311	137,311	
Fund Balance at End of Year	\$1,370,297	\$2,434,002	\$1,063,705

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$449,410	\$463,962	\$14,552	\$4,875	\$3,987	(\$888)
94,600	79,319	(15,281)			
18,050	21,049	2,999			
2,000	810	(1,190)			
29,360	27,003	(2,357)	70,575	103,304	32,729
593,420	592,143	(1,277)	75,450	107,291	31,841
118,385	112,001	6,384			
263,724	258,462	5,262			
23,340	22,625	715			
28,971	19,891	9,080			
69,636	58,431	11,205			
700	625	75	1,265	284	981
7,247	5,881	1,366			
41,517	32,654	8,863			
149,044	125,031	24,013			
			52,420	52,420	
			23,268	23,268	
702,564	635,601	66,963	76,953	75,972	981
(109,144)	(43,458)	65,686	(1,503)	31,319	32,822
33,000	35,000	2,000			
	3,129	3,129			
33,000	38,129	5,129			
(76,144)	(5,329)	70,815	(1,503)	31,319	32,822
151,307	151,307		14,970	14,970	
16,932	16,932				
\$92,095	\$162,910	\$70,815	\$13,467	\$46,289	\$32,822

(Continued)

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental and Similar Fiduciary Trust Fund Types
For the Year Ended June 30, 2002
(Continued)**

	Capital Projects		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$18,563	\$68,989	\$50,426
Interest			
Tuition and Fees			
Rent			
Extracurricular Activities			
Gifts and Donations			
Customer Services			
Property and Other Local Taxes	142,742	144,416	1,674
Miscellaneous			
Total Revenues	161,305	213,405	52,100
Expenditures:			
Current:			
Instruction:			
Regular	7,321	5,889	1,432
Special			
Vocational			
Other			
Support services:			
Pupils			
Instructional Staff			
Board of Education			
Administration	30,000	30,000	
Fiscal	1,700	1,480	220
Business			
Operation and Maintenance of Plant			
Pupil Transportation			
Central			
Non-Instructional Services			
Extracurricular activities			
Capital Outlay	303,353	172,162	131,191
Debt Service			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	342,374	209,531	132,843
Excess of Revenues Over (Under) Expenditures	(181,069)	3,874	184,943
Other Financing Sources and Uses			
Operating Transfers In			
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures			
Advances In			
Other Financing Sources			
Operating Transfers Out			
Advances Out			
Total Other Financing Sources (Uses)			
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(181,069)	3,874	184,943
Fund Balances at Beginning of Year	262,191	262,191	
Prior Year Encumbrances Appropriated	33,353	33,353	
Fund Balance at End of Year	\$114,475	\$299,418	\$184,943

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

Expendable Trust			Totals (Memorandum Only)		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
			\$6,304,851	\$6,456,626	\$151,775
			144,238	102,852	(41,386)
			122,290	178,088	55,798
			1,600	742	(858)
			94,600	79,319	(15,281)
\$1,500	\$1,506	\$6	29,550	28,295	(1,255)
			2,000	810	(1,190)
			5,297,746	5,324,796	27,050
			140,528	110,523	(30,005)
1,500	1,506	6	12,137,403	12,282,051	144,648
			5,739,796	5,225,205	514,591
			1,566,175	1,466,409	99,766
			366,253	341,854	24,399
			69,465	56,187	13,278
			600,537	526,211	74,326
			364,187	336,149	28,038
			28,321	23,650	4,671
			1,229,714	1,099,542	130,172
			287,795	272,241	15,554
			3,028	743	2,285
			1,042,095	837,349	204,746
			893,257	737,095	156,162
1,506	1,506		161,517	150,175	11,342
			1,636	1,604	32
			404,312	315,624	88,688
			362,915	219,970	142,945
			52,420	52,420	
			23,268	23,268	
1,506	1,506		13,196,691	11,685,696	1,510,995
(6)		6	(1,059,288)	596,355	1,655,643
			443,000	35,000	(408,000)
			2,000	3,506	1,506
			15,000	11,142	(3,858)
				3,129	3,129
			(195,000)	(93,000)	102,000
			(5,000)	(3,129)	1,871
			260,000	(43,352)	(303,352)
(6)		6	(799,288)	553,003	1,352,291
1,366	1,366		2,203,386	2,203,386	
			187,596	187,596	
\$1,360	\$1,366	\$6	\$1,591,694	\$2,943,985	\$1,352,291

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Statement of Revenues, Expenses and Changes in Fund Equity
All Proprietary and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	Proprietary Fund Types	
	Enterprise	Internal Service
Operating Revenues:		
Sales	\$340,356	\$20,702
Extracurricular Activities	31,684	
Refund of Prior Year Expense	45	
Total Operating Revenues	372,085	20,702
Operating Expenses		
Salaries	148,746	
Fringe Benefits	79,657	
Purchased Services	131,547	
Materials and Supplies	214,706	18,252
Depreciation	1,109	
Other		
Total Operating Expenses	575,765	18,252
Operating Income (Loss)	(203,680)	2,450
Non-Operating Revenues and Expenses		
Federal Donated Commodities	47,148	
Federal and State Subsidies	78,711	
Other	5,112	
Total Non-Operating Revenues and Expenses	130,971	
Income (Loss) Before Operating Transfers	(72,709)	2,450
Operating Transfers-In	58,000	
Net Income (Loss)	(14,709)	2,450
Retained Earnings/Fund Balances at Beginning of Year, Restated	8,738	4,360
Retained Earnings/Fund Balances at End of Year	(\$5,971)	\$6,810

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

Fiduciary Fund Type	Totals (Memorandum Only)
Nonexpendable Trust	
	\$361,058
	31,684
	45
	<u>392,787</u>
	148,746
	79,657
	131,547
	232,958
	1,109
	<u>594,017</u>
	(201,230)
	47,148
	78,711
	5,112
	<u>130,971</u>
	(70,259)
	<u>58,000</u>
	(12,259)
<u>\$27,980</u>	<u>41,078</u>
<u>\$27,980</u>	<u>\$28,819</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Combined Statement of Cash Flow
All Proprietary and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	Proprietary Fund Types	
	Enterprise	Internal Service
Increase (Decrease) in Cash and Cash Equivalents		
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Sales	\$340,437	\$20,702
Other Cash Receipts	31,729	
Cash Payments to Suppliers for Goods and Service	(166,622)	(18,252)
Cash Payments for Contract Services	(125,204)	
Cash Payments for Employee Services	(156,945)	
Cash Payments for Employee Benefits	(74,243)	
Net Cash Provided (Used) by Operating Activities	(150,848)	2,450
<u>Cash Flows from Noncapital Financing Activities:</u>		
Operating Grants Received	78,711	
Transfers In	58,000	
Other	5,112	
Net Cash Provided by Noncapital Financing Activities	141,823	
Net Increase (Decrease) in Cash and Cash Equivalents	(9,025)	2,450
Cash and Cash Equivalents at Beginning of Year	38,237	4,360
Cash and Cash Equivalents at End of Year	\$29,212	\$6,810

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss)	(\$203,680)	\$2,450
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Adjustments to Reconcile Operating Income (Loss)

To Net Cash Provided (Used) by Operating Activities:

Depreciation	1,109	
Donated Commodities Used During the Year	47,148	
(Increase) Decrease in Assets:		
Accounts Receivable	81	
Material and Supplies Inventory	1,476	
Prepaid Items	700	
Increase (Decrease) in Liabilities:		
Compensated Absences Payable	(447)	
Intergovernmental Payable	6,368	
Deferred Revenue	(334)	
Accrued Wages and Benefits	(8,706)	
Accounts Payable	5,437	
Total Adjustments	52,832	
Net Cash Provided (Used) by Operating Activities	(\$150,848)	\$2,450

Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2002:

Cash and Cash Equivalents - Trust and Agency Funds

Less: Expendable Trust Funds

Less: Agency Funds

Cash and Cash Equivalents - Nonexpendable Trust Funds

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

Fiduciary Fund Type	Totals (Memorandum Only)
Nonexpendable Trust	
	\$361,139
	31,729
	(184,874)
	(125,204)
	(156,945)
	(74,243)
	(148,398)
	78,711
	58,000
	5,112
	141,823
	(6,575)
\$27,980	70,577
\$27,980	\$64,002
	(\$201,230)
	1,109
	47,148
	81
	1,476
	700
	(447)
	6,368
	(334)
	(8,706)
	5,437
	52,832
	(\$148,398)
	\$68,572
	(1,366)
	(39,226)
	\$27,980

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Otsego Local School District (the District) is located in portions of Wood, Lucas, and Henry Counties, including all of the villages of Tontogany, Haskins, Grand Rapids, and Weston, and portions of surrounding townships. The District serves an area of approximately 144 square miles.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates three elementary schools, one middle school, and one comprehensive high school. The District employs 68 non-certified and 111 certified (including administrative) full-time and part-time employees to provide services to approximately 1,704 students in grades K through 12 and various community groups, which ranks it 331st out of approximately 612 school districts in Ohio.

The Reporting Entity

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

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

The School District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Educational Council, the Penta County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Weston Public Library, the Wood County Schools Benefit Association, and the OSBA Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14, 15, and 16 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust 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. Operating

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statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund types and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed by the proprietary fund types and nonexpendable trust fund.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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 year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes 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 period 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 included timing requirements, which specify the year when the revenue 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 specific purpose, and expenditure requirements, in which the resources provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available as an advance, income taxes, interest, tuition, grants, and student fees.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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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 the governmental funds.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. Each category is divided into separate fund types.

1. GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through Governmental Funds. The following are the District's Governmental Fund Types:

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

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

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

2. PROPRIETARY FUNDS

Proprietary Funds are used to account for the District's ongoing activities, which are similar to those often, found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's Proprietary Fund Types.

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic

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determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - The Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the District, or to other governmental units, on a cost-reimbursement basis.

3. FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable and Non-Expendable Trust Funds and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental funds. Nonexpendable Trust funds are accounted for in essentially the same manner as Proprietary funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the Proprietary funds and Trust funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the Proprietary funds and Trust funds.

C. Budgetary Accounting

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds.

The specific timetable for fiscal year 2002 is as follows:

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

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appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

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

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

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

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust fund for the year ended June 30, 2002 follows:

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses			
	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	\$523,139	(\$5,329)	\$31,319	\$3,874
Revenue Accruals	65,214	4,861	308	1,788
Expenditure Accruals	(50,764)	(5,345)		3,353
Other Financing Sources (Uses)	8,318	(3,129)		
Reserve for Encumbrances	149,259	1,906		
GAAP Basis	\$695,166	(\$7,036)	\$31,627	\$9,015

D. Encumbrances

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was

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appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During 2002 investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on, quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

The Board allocates all investment earnings to the General fund. Interest revenue credited to the General fund, during fiscal 2002 totaled \$102,962.

The District utilizes a financial institution to service bonded debt as principal and interest payments come due. This account did not have a balance at June 30, 2002.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories of Proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Prepaids

Prepayments for Governmental funds represent cash disbursements that have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At period-end, because prepayment and deferrals are not available to finance future Governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

H. Property, Plant and Equipment

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows

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the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Assets Account Group.

2. Proprietary Funds

Equipment reflected in these funds is stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives.

<u>Asset</u>	<u>Life (years)</u>
Furniture, Fixtures and Minor Equipment	5-20
Vehicles	4-6

I. Intergovernmental Revenues

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants for Proprietary fund operations are recognized as revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief

Debt Service Fund

State Property Tax Relief

Capital Projects Fund

State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds

Teacher Development
Management Information Systems
Public School Preschool
OECN Network Connectivity
School Net Professional Development
Instructional Materials Subsidy
Ohio Reads
Summer School Subsidy
Extended Learning Opportunity
Safe School Funding
Ohio Environmental Education

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MS – Nontraditional Career Mini
OMS Ohio Partners
Title II
Title I
Title VI
E-Rate
Title VI-R

Capital Project Funds

School Net
Technology Equity
Vocational Education Building
Emergency Building Repair

Reimbursable Grants

General Fund

School Bus Purchases
Driver Education

Proprietary

National School Lunch Program
National School Milk Program

Grants and entitlements amounted to over 51percent of the District's operating revenue during the 2002 fiscal year.

J. Interfund Transactions

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

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

K. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board (GASB), Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is

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accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years' service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

L. Long-Term Obligations

Long-term debt is recognized as a liability of a Governmental fund when due, or when resources have been accumulated in the Debt Service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from Proprietary fund operations are accounted for in those funds.

M. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for Encumbrances, Prepaid Items, Debt Service Principal, Contributions, and Property Taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for Contributions signifies the legal restrictions on the use of principal.

N. Memorandum Only - Total Columns

Total columns on the General Purpose Financial Statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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O. Estimates

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

P. Statement of Cash Flows

In September 1989, GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The District has presented a statement of cash flows for its Proprietary and Nonexpendable Trust funds. For purposes of the statement of cash flows, the District considers cash equivalents to include all short-term investments (maturity of 90 days or less from date of purchase).

3. ACCOUNTABILITY

At June 30, 2002, the Miscellaneous State Grants and Lunchroom Fund had a deficit fund balance of \$1,594 and \$25,164, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School 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 two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies that 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 accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on Hand: At year end, the District had \$631 in undeposited cash on hand, which is included on the Balance Sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents," but is not included in the total amount of deposits reported below.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

Deposits: At year-end the carrying amount of the District's deposits was \$2,095,548 and the bank balance was \$2,403,848. Of the bank balance:

1. \$200,000 was covered by federal deposit insurance.
2. \$2,203,848 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

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Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category of Risk 3	Reported Amount	Fair Value
Repurchase Agreements	\$257,521	\$257,521	\$257,521
Not Subject to Categorization:			
Investment in State Treasurer's Investment Pool		844,677	844,677
Total Investments	\$257,521	\$1,102,198	\$1,102,198

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

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$3,198,377	
Cash on Hand	(631)	
Investments:		
Repurchase Agreement	(257,521)	\$257,521
STAR Ohio	(844,677)	844,677
GASB Statement No. 3	\$2,095,548	1,102,198

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value except for the personal property of rural electric companies, which are assessed 50% of market, and railroads, which are assessed at 29%.

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Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

The assessed values upon which fiscal year 2002 taxes were collected are:

	2002 Collections Amount	Percent
Commercial/Industrial Real Estate	\$10,963,680	7%
Residential/Agricultural Real Estate	137,746,620	85%
Public Utility Real Estate	90,980	
Personal Property General	6,080,670	4%
Personal Property Public Utilities	7,435,700	4%
Total Assessed Value	\$162,317,650	100%
Tax rate per \$1,000 of assessed valuation	\$59.10	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20.

The County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes that became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

6. RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (rent and student fees), and intergovernmental grants and entitlements (to the extent such grants and/or entitlements relate to the current fiscal year). All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes and the stable condition of State programs.

A summary of the principal items of receivables follows:

	Amount
<u>General Fund</u>	
Taxes	\$4,580,577
Accounts	10,880
<u>Special Revenue Fund</u>	
Accounts	171
<u>Debt Service Fund</u>	
Taxes	29,217
<u>Capital Projects Fund</u>	
Taxes	144,230

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

7. FIXED ASSETS

The following changes occurred in the General Fixed Assets Account Group during the year:

<u>Asset Category</u>	Restated Balance at 6/30/01	Additions	Deletions	Balance at 6/30/02
Land	\$74,047	\$69,612		\$143,659
Improvements	1,424,484	275,775		1,700,259
Buildings	4,308,092			4,308,092
Furniture and Equipment	2,025,286	147,625	\$4,910	2,168,001
Vehicles	929,196	16,990		946,186
Totals	<u>\$8,761,105</u>	<u>\$510,002</u>	<u>\$4,910</u>	<u>\$9,266,197</u>

A summary of the Proprietary fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$101,966
Less: Accumulated Depreciation	<u>(77,116)</u>
Net Fixed Assets	<u><u>\$24,850</u></u>

8. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the District has entered into capitalized leases for the acquisition of a building.

The terms of the agreement provides an option to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board (FASB), "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Fund Types and Expendable Trust Funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2002 fiscal year totaled \$29,606. This amount is reflected as debt service principal retirement in the Special Revenue Funds.

The following is an analysis of the equipment under capital lease as of June 30, 2002:

	General Fixed Assets
Modular Building, Carrying Value	<u><u>\$250,990</u></u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2002:

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

Year Ending June 30,	Modular Building
2003	\$35,922
2004	35,923
2005	14,967
Total Future Minimum Lease Payments	86,812
Less: Amount Representing Interest	6,733
Present Value of Future Minimum Lease Payments	<u>\$80,079</u>

The District does not have a capitalized lease obligation after fiscal year 2005.

9. LONG-TERM OBLIGATIONS

All current general obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to these bonds are recorded as expenditures in the Debt Service fund. The source of payment is derived from a current .20 mill bonded debt tax levy.

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to these notes are recorded as expenditures in the Debt Service fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes and loans without voter approval, and the subsequent repayment of the notes from operating revenues.

A. The following is a description of the Otsego Local School District bonds and notes outstanding as of June 30, 2002:

Purpose	Interest Rate	Issue Date	Maturity Date	Balance at 7/1/01	Retired in Fiscal 2002	Balance at 6/30/02
Asbestos Removal Loan	None	8/21/86	12/30/01	\$2,420	\$2,420	
School Energy Conservation Notes	5.85%	7/1/94	7/1/04	105,000	35,000	\$70,000
School Facilities Improvement Bonds	5.00%	2/1/94	12/1/16	350,000	15,000	335,000
				<u>\$457,420</u>	<u>\$52,420</u>	<u>\$405,000</u>

B. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds and energy conservation notes:

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

Fiscal year Ending June 30,	Principal	Interest	Total
2003	\$50,000	\$20,470	\$70,470
2004	50,000	17,672	67,672
2005	15,000	14,875	29,875
2006	15,000	14,125	29,125
2007	20,000	13,250	33,250
2008-2012	110,000	50,750	160,750
2013-2017	145,000	19,375	164,375
Total	<u>\$405,000</u>	<u>\$150,517</u>	<u>\$555,517</u>

- C. During the year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will be paid from the fund from which the employee is paid.

	Balance at 6/30/01	Increase	Decrease	Balance at 6/30/02
General Obligation Bonds	\$350,000		\$15,000	\$335,000
General Obligation Notes	2,420		2,420	
Energy Conservation Notes	105,000		35,000	70,000
Capital Leases	109,685		29,606	80,079
Pension Obligation	98,584		3,556	95,028
Compensated Absences	657,236	\$48,490		705,726
Total Long-Term Obligations	<u>\$1,322,925</u>	<u>\$48,490</u>	<u>\$85,582</u>	<u>\$1,285,833</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a school district shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the district. The effects of these debt limitations for the District at June 30, 2002 are a voted debt margin of \$14,273,589 and an unvoted debt margin of \$162,318.

10. 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. The District maintains comprehensive commercial insurance coverage for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Real property and contents have a liability limit of \$24,527,300 with 100% coinsurance.

The District's fleet insurance policy has a liability limit of \$2,000,000 each occurrence and \$2,000,000 for uninsured motorists.

The District has liability insurance coverage limits of \$1,000,000 per claim and \$5,000,000 annual aggregate.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

11. SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three Enterprise funds to account for the operations of Food Services, Uniform School Supplies, and Rotary. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise Funds of the District as of and for the year ended June 30, 2002.

	Food Service	Uniform School Supplies	Rotary	Totals
Operating Revenues	\$324,973	\$15,428	\$31,684	\$372,085
Depreciation	1,109			1,109
Operating (loss)	(203,392)	4,235	(4,523)	(203,680)
Donated commodities	47,148			47,148
Grants	78,711			78,711
Other	5,112			5,112
Operating transfers in	58,000			58,000
Net income (loss)	(14,421)	4,235	(4,523)	(14,709)
Net working capital	(50,014)	5,333	13,860	(30,821)
Total assets	39,282	5,977	13,860	59,119
Total liabilities	64,446	644		65,090
Total equity	(25,164)	5,333	13,860	(5,971)

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2002. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$82,612, \$93,094, and \$66,588, respectively; 53 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$100,451, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 1998, and 1997 were \$487,011, \$223,719, and \$389,341, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$122,501, which represents the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of monthly premiums.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2001, the allocation rate is 9.80 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits were \$315.7 million.

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

14. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, Williams and Wood counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$30,272. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, 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 four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Penta County Career Center

The Penta County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the sixteen

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Penta County Joint Vocational School District, Carrie J. Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551.

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 twenty-five county area of 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., P.O. Box 456, Ashland, Ohio 44805.

15. RELATED ORGANIZATION

Weston Public Library

The Weston Public 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 Otsego Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees

16. GROUP PURCHASING POOLS

A. Wood County Schools Benefit Association

The District has joined together with other school districts in the County to form Wood County Schools Benefit Association, a public entity risk pool currently operating as a common risk management and insurance program for 11 member school districts. The District pays an annual premium to Wood County Schools Benefit Association, for its general insurance coverage. It is intended that the Wood County Schools Benefit Association will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$150,000 for each insured event.

B. OSBA Workers' Compensation Group Rating

The District is a member of the OSBA Workers' Compensation Group Rating Program established in April 1991. The program was created by the Ohio Schools Boards Association as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school districts to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

17. CONTINGENT LIABILITIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is party to legal proceedings. The District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

18. SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Balance as of June 30, 2001	(\$149,286)	
Current Year Set-aside Requirement	180,010	\$180,010
Current Year Offsets		(155,184)
Qualifying Disbursements	(247,304)	(128,152)
Set-aside Balance as of June 30, 2002	(\$216,580)	(\$103,326)
Balance Carried Forward to FY 2003	(\$216,580)	

Although the School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amounts to below zero, these extra amounts may be used to reduce the set-aside requirements of future years.

19. STATE SCHOOL FUNDING DECISION

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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

20. CORRECTION OF AN ERROR

During fiscal year 2002, the School District determined that fixed assets were understated in the General Fixed Assets Account Group by \$766,820, as of June 30, 2001. The balance at July 1, 2001, has been restated from \$7,994,285 to \$8,761,105.

The School District also determined that proprietary fixed assets were understated by \$9,369 and accumulated depreciation was understated by \$470 as of June 30, 2001. This correction resulted in the following change to the beginning retained earnings balance and had the following effect on net income as previously reported of the enterprise fund type at June 30, 2001:

Enterprise Funds:

Retained Earnings, June 30, 2001 (as reported)	(\$161)
Restated Fixed Assets	<u>8,899</u>
Retained Earnings, July 1, 2001 (Restated)	<u><u>\$8,738</u></u>
Net Income, June 30, 2001 (as reported)	\$25,512
Restated Depreciation Expense	<u>470</u>
Net Income, June 30, 2001 (Restated)	<u><u>\$25,042</u></u>

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Donation Program		10.550
National School Lunch Program		10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Grants to Local Educational Agencies (ESEA Title I) Total Title I Grant	050724-C1-S1-2001 050724-C1-S1-2002	84.010
Safe and Drug Free Schools (Title IV) Total Title IV Grant	050724-DR-S1-2001 050724-DR-S1-2002	84.186
Eisenhower Professional Development Grant (Title II) Total Title II Grant	050724-MS-S1-2001 050724-MS-S1-2002	84.281
Innovative Education Program Strategies (Title VI) Total Title VI Grant	050724-C2-S1-2001 050724-C2-S1-2002	84.298
Class Size Reduction (Title VI-R) Total Title VI-R Grant	050724-CR-S1-2001 050724-CR-S1-2002	84.340
Total Department of Education		

Totals

The accompanying notes are an integral part of this schedule.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$47,148		\$47,148
<u>\$75,678</u>		<u>\$75,678</u>	
<u>75,678</u>	<u>47,148</u>	<u>75,678</u>	<u>47,148</u>
8,170		37,654	
215,805		169,321	
<u>223,975</u>		<u>206,975</u>	
3		3	
6,689		6,689	
<u>6,692</u>		<u>6,692</u>	
784		2,342	
8,975		5,886	
<u>9,759</u>		<u>8,228</u>	
322		322	
8,815		8,815	
<u>9,137</u>		<u>9,137</u>	
54,505		5,706	
<u>54,505</u>		<u>45,781</u>	
		<u>51,487</u>	
<u>304,068</u>		<u>282,519</u>	
<u>\$379,746</u>	<u>\$47,148</u>	<u>\$358,197</u>	<u>\$47,148</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
June 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

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800-443-9276
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www.auditor.state.oh.us

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

Otsego Local School District
Wood County
18505 Tontogany Creek Road
P.O. Box 290
Tontogany, Ohio 43565-0290

To the Board of Education:

We have audited the financial statements of Otsego Local School District (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Otsego Local School District
Wood County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 16, 2003



**Auditor of State
Betty Montgomery**

One Government Center
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Otsego Local School District
Wood County
18505 Tontogany Creek Road
P.O. Box 290
Tontogany, Ohio 43565-0290

To the Board of Education:

Compliance

We have audited the compliance of Otsego Local School District (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 16, 2003

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Findings
June 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I - CFDA # 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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OTSEGO LOCAL SCHOOL DISTRICT

WOOD 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 18, 2003**