



**Auditor of State
Betty Montgomery**

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. As described in Note 9, during the year ended June 30, 2003, the School District changed its fixed asst capitalization policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2004, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

February 17, 2004

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

The discussion and analysis of Otsego Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

- In total, net assets decreased \$202,489.
- General revenues accounted for \$11,467,336 in revenue or 89.58 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$1,334,225 or 10.42 percent of total revenues of \$12,801,561.
- The District had \$13,004,050 in expenses related to Governmental activities. Only \$1,334,225 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting these activities (primarily taxes and unrestricted grants and entitlements) were not adequate. Therefore, the district used prior year net assets of \$202,489 to fully fund the expenses of these programs.
- The District's only major governmental fund is the general fund. The General fund had \$11,256,332 in revenues and other financing sources and \$11,574,838 in expenditures and other financing uses. The general fund's balance decreased from \$2,149,135 to \$1,830,629.

Using Basic Financial Statement

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003"? The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Districts residents' personal income for the purpose of Income Tax, the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

- **Governmental Activities** - All of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

Fiduciary Funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

The table below provides a summary of the District's net assets for 2003.

Table 1
Net Assets
Governmental Activities

	2003
Assets	
Current and Other Assets	\$7,678,448
Capital Assets, Net	4,039,922
<i>Total Assets</i>	<u>11,718,370</u>
Liabilities	
Current and Other Liabilities	5,199,218
Long-Term Liabilities	1,399,154
<i>Total Liabilities</i>	<u>6,598,372</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,636,452
Restricted	654,820
Unrestricted	828,726
<i>Total</i>	<u><u>\$5,119,998</u></u>

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Change in Net Assets
Governmental Activities

	2003
Revenues	
Program Revenues:	
Charges for Services and Sales	\$553,246
Operating Grants, Contributions and Interest	598,379
Capital Grants and Contributions	182,600
<i>Total Program Revenues</i>	<u>1,334,225</u>
General Revenues	
Property Taxes	4,585,482
Income Tax	392,293
Grants and Entitlements	6,189,403
Gifts and Donations	28,969
Interest Earnings	71,541
Miscellaneous	161,278
Other Financing Sources	38,370
<i>Total General Revenues</i>	<u>11,467,336</u>
<i>Total Revenues</i>	<u><u>12,801,561</u></u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

Expenses

Instruction:	
Regular	5,779,840
Special	1,544,300
Vocational	385,647
Adult/Continuing	1,518
Other	66,450
Support Services:	
Pupils	660,037
Instructional Staff	403,341
Board of Education	111,798
Administration	1,092,129
Fiscal	294,733
Business	969
Operation and Maintenance of Plant	906,864
Pupil Transportation	742,951
Central	125,578
Non-Instructional	453,456
Extracurricular Activities	301,495
Capital Outlay	63,883
Debt Service:	
Principal	31,609
Interest and Fiscal Charges	24,784
Other Financing Uses	12,668
<i>Total Expenses</i>	<u>13,004,050</u>
<i>Increase in Net Assets</i>	<u><u>(\$202,489)</u></u>

Governmental Activities

Net Assets of the District's governmental activities decreased by \$202,489. Total governmental expenses of \$13,004,050 were offset by program revenues of \$1,334,225. Program revenues supported 10.26 percent of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 93.96 percent of total governmental activities revenue. Real estate property is appraised every six years. The primary decrease in governmental net assets is due to an expiration of a voted 12-mill emergency levy in calendar year 2002, which collected approximately \$1,447,668 annually. In addition to the expiration of the 12-mill emergency levy, district voters approved a continuing 1 percent School District Income Tax effective January 1, 2003.

The District's financial condition has improved significantly in the last 5 years, partially due to district voter's support and increased financial support from the State. It is the hopes of the School District that the Income Tax will provide financial stability to the district rather than relying significantly on property tax.

Although state support has increased over the past couple years, future growth in state funding is expected to be lower.

**OTSEGO LOCAL SCHOOL DISTRICT
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**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2003	2003
Instruction:		
Regular	\$5,779,840	\$5,530,454
Special	1,544,300	1,209,328
Vocational	385,647	385,647
Adult/Continuing	1,518	1,518
Other	66,450	66,450
Support Services:		
Pupils	660,037	624,975
Instructional Staff	403,341	388,970
Board of Education	111,798	111,798
Administration	1,092,129	1,051,046
Fiscal	294,733	294,733
Business	969	969
Operation and Maintenance of Plant	906,864	906,864
Pupil Transportation	742,951	742,951
Central	125,578	110,054
Non-Instructional	453,456	84,024
Extracurricular Activities	301,495	209,700
Capital Outlay	63,883	(118,717)
Debt Service:		
Principal	31,609	31,609
Interest and Fiscal Charges	24,784	24,784
Other Financing Uses	12,668	12,668
<i>Total Expenses</i>	<u>\$13,004,050</u>	<u>\$11,669,825</u>

The dependence upon tax revenues for governmental activities is apparent, 92 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, taxes and other general revenue support is 88 percent. The District's taxpayers, as a whole, are by far the primary support for District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total government funds had revenues of \$12,705,432 and expenditures of \$12,922,137. The net negative change of \$216,705 in fund balance for the year caused the District to spend carryover funds by \$216,705.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the District amended its general fund budget as needed. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$ 371,244, above original budget estimates of \$10,811,165. There was a significant change in tax revenue collection estimates as well as entitlements throughout the year that make up the majority of the difference from the original budget.

Final expenditures were budgeted at \$12,807,920 while actual expenditures were \$11,551,786. The \$1,256,134 difference is primarily due to a conservative "worst case scenario" approach. The District bases appropriations on the previous year's expenditures for purchased services and appropriates personnel and benefit cost from information available. Special District needs are identified by the District Superintendent and built into the budget if finances can accommodate the need but may not always be expended due to changes in the financial outlook throughout the year.

The general fund maintained an unencumbered cash balance of \$2,073,546 at June 30, 2003.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$4,039,922 (net of accumulated depreciation) invested in land, land improvements, buildings, building improvements, furniture, fixtures, equipment and vehicles. See Note 9 of the District's Basic Notes to the Financial Statements.

Debt Administration

At June 30, 2003, the District has \$35,000 in general obligation energy conservation bonds outstanding. The debt will be paid in full in fiscal year 2004. The District also has \$320,000 in school improvement general obligation bonds for building improvements outstanding. The bonds were issued for a twenty-three year period, with final maturity on December 1, 2016. The bonds are being retired through the Bond Retirement debt service fund.

At June 30, 2003, the District had an outstanding capital lease, in the amount of \$48,470. The lease is being paid from the General Fund in monthly payments with final maturity in fiscal year 2005.

For the Future

Over the past several years, the District has remained in a good financial position. Despite the economy and uncertainty of school funding, the district projections indicate operating in the black thru fiscal year 2006. The collection of the School District Income Tax revenue is much lower

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003**

than originally projected mostly due to the economy and payment schedule of taxpayers. It is hoped that the revenue will make up for a majority of the shortfalls within the next six months and continue to grow to provide some stability for the district.

The District continues to struggle with the condition of district facilities. A bond levy for the purpose of building new school buildings and renovating some existing facilities has failed three times in the last year and a half. With approval, the District would have been eligible for Ohio School Facilities Commission funding in approximately 2010 for 55 percent of qualifying expenses. Currently, a team of administrators, district community leaders, and community members are meeting to come up with a compromise of a facilities plan that district voters would support at the voting polls.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mrs. Christine Ziegler, Treasurer at Otsego Local School District, 18505 Tontogany Creek Rd., PO Box 290, Tontogany, Ohio 43565-0290.

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Net Assets
For the Fiscal Year Ended June 30, 2003**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,779,217
Materials and Supplies Inventory	9,558
Receivables:	
Interest	682
Accounts	55,163
Intergovernmental	203,016
Taxes	4,327,765
Income Taxes	303,047
Capital Assets:	
Non-Depreciable Capital Assets	143,659
Depreciable Capital Assets, net	<u>3,896,263</u>
<i>Total Assets</i>	<u>11,718,370</u>
Liabilities:	
Accounts Payable	62,671
Accrued Wages and Benefits	890,453
Intergovernmental Payable	242,923
Matured Compensated Absences Payable	84,324
Deferred Revenue	3,918,847
Long-Term Liabilities:	
Due Within One Year	140,048
Due in More Than One Year	<u>1,259,106</u>
<i>Total Liabilities</i>	<u>6,598,372</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	3,636,452
Restricted for Debt Service	52,056
Restricted for Capital Outlay	421,099
Restricted for Other Purposes	181,665
Unrestricted	<u>828,726</u>
<i>Total Net Assets</i>	<u><u>\$5,119,998</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$5,779,840	\$164,450	\$84,936	(\$5,530,454)
Special	1,544,300		334,972	(1,209,328)
Vocational	385,647			(385,647)
Adult/Continuing	1,518			(1,518)
Other	66,450			(66,450)
Support Services:				
Pupils	660,037		35,062	(624,975)
Instructional Staff	403,341		14,371	(388,970)
Board of Education	111,798			(111,798)
Administration	1,092,129		41,083	(1,051,046)
Fiscal	294,733			(294,733)
Business	969			(969)
Operation and Maintenance of Plant	906,864			(906,864)
Pupil Transportation	742,951			(742,951)
Central	125,578		15,524	(110,054)
Operation of Non-Instructional Services	453,456	297,001	72,431	(84,024)
Extracurricular Activities	301,495	91,795		(209,700)
Capital Outlay	63,883			118,717
Debt Service:				
Principal	31,609			(31,609)
Interest and Fiscal Charges	24,784			(24,784)
Refund of Prior Year Receipts	12,668			(12,668)
Total Governmental Activities	\$13,004,050	\$553,246	\$598,379	\$182,600
				(11,669,825)
General Revenues				
Taxes:				
Property Taxes, Levied for General Purposes				4,419,341
Property Taxes, Levied for Capital Outlay				137,663
Property Taxes, Levied for Debt Service				28,478
Income Taxes				392,293
Grants and Entitlements not Restricted to Specific Programs				6,189,403
Gifts and Donations				28,969
Investment Earnings				71,541
Miscellaneous				161,278
Other Financing Sources:				
Proceeds from Sale of Fixed Assets				410
Refund of Prior Year Expenditures				37,960
Total General Revenues and Transfers				11,467,336
Change in Net Assets				(202,489)
Net Assets Beginning of Year				5,322,487
Net Assets End of Year				\$5,119,998

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2003**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$2,168,440	\$610,777	\$2,779,217
Materials and Supplies Inventory		9,558	9,558
Receivables:			
Interest	682		682
Accounts	55,163		55,163
Interfund	20,644		20,644
Intergovernmental		203,016	203,016
Taxes	4,143,781	183,984	4,327,765
Income Taxes	303,047		303,047
<i>Total Assets</i>	<u>\$6,691,757</u>	<u>\$1,007,335</u>	<u>\$7,699,092</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$52,965	\$9,706	\$62,671
Accrued Wages and Benefits	825,552	64,901	890,453
Interfund Payable		20,644	20,644
Intergovernmental Payable	150,478	10,115	160,593
Matured Compensated Absences Payable	79,427	4,897	84,324
Deferred Revenue	3,752,706	332,270	4,084,976
<i>Total Liabilities</i>	<u>4,861,128</u>	<u>442,533</u>	<u>5,303,661</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	43,883	51,834	95,717
Reserved for Property Taxes	391,075	17,843	408,918
Unreserved, Undesignated, Reported in:			
General Fund	1,395,671		1,395,671
Special Revenue Funds		88,453	88,453
Debt Service Funds		48,793	48,793
Capital Projects Funds		357,879	357,879
<i>Total Fund Balances</i>	<u>1,830,629</u>	<u>564,802</u>	<u>2,395,431</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,691,757</u>	<u>\$1,007,335</u>	<u>\$7,699,092</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2003**

Total Governmental Fund Balances		\$2,395,431
 <i>Amounts reported for governmental activities on the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		4,039,922
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	\$166,129	
		166,129
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(82,330)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(355,000)	
Compensated Absences Payable	(995,684)	
Capital Leases Payable	(48,470)	
		(1,399,154)
<i>Net Assets of Governmental Activities</i>		\$5,119,998

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property and Other Local Taxes	\$4,370,123	\$215,359	\$4,585,482
Income Tax	392,293		392,293
Intergovernmental	6,126,598	677,655	6,804,253
Interest	71,541		71,541
Tuition and Fees	112,679	35,124	147,803
Rent	460		460
Extracurricular Activities	8,905	82,890	91,795
Gifts and Donations	9,800	19,169	28,969
Customer Sales and Services		294,251	294,251
Miscellaneous	125,973	54,242	180,215
<i>Total Revenues</i>	<u>11,218,372</u>	<u>1,378,690</u>	<u>12,597,062</u>
Expenditures			
Current:			
Instruction:			
Regular	5,404,480	193,697	5,598,177
Special	1,260,746	273,931	1,534,677
Vocational	373,276		373,276
Adult/Continuing	1,518		1,518
Other	65,898	544	66,442
Support Services:			
Pupils	554,488	78,110	632,598
Instructional Staff	375,158	21,366	396,524
Board of Education	22,872		22,872
Administration	1,051,223	95,156	1,146,379
Fiscal	283,843	2,524	286,367
Business	969		969
Operation and Maintenance of Plant	927,865	6,487	934,352
Pupil Transportation	810,547	4,956	815,503
Central	110,054	15,524	125,578
Operation of Non-Instructional Services	69	424,754	424,823
Extracurricular Activities	210,397	98,741	309,138
Capital Outlay	40,356	23,527	63,883
Debt Service:			
Principal		81,609	81,609
Interest		24,784	24,784
<i>Total Expenditures</i>	<u>11,493,759</u>	<u>1,345,710</u>	<u>12,839,469</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(275,387)</u>	<u>32,980</u>	<u>(242,407)</u>
Other Financing Sources and (Uses)			
Transfers In		70,000	70,000
Proceeds from Sale of Fixed Assets		410	410
Refund of Prior Year Expenditures	37,960		37,960
Transfers Out	(70,000)		(70,000)
Refund of Prior Year Receipts	(11,079)	(1,589)	(12,668)
<i>Total Other Financing Sources and Uses</i>	<u>(43,119)</u>	<u>68,821</u>	<u>25,702</u>
<i>Net Change in Fund Balances</i>	(318,506)	101,801	(216,705)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>2,149,135</u>	<u>463,000</u>	<u>2,612,135</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$1,830,629</u>	<u>\$564,801</u>	<u>\$2,395,430</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement Activities
For the Fiscal Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds (\$216,705)

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

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	\$361,637	
Depreciation	(317,131)	
		44,506

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.

Gain (Loss) on Disposal of Capital Assets	(769)	
		(769)

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

Intergovernmental	166,129	
		166,129

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

		81,609
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Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	12,699	
Compensated Absences Payable	(289,958)	
		(277,259)

<i>Change in Net Assets of Governmental Activities</i>		<u><u>(202,489)</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison**

General Fund

For the Fiscal Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property and Other Local Taxes	\$4,434,874	\$4,648,611	\$4,472,535	(\$176,076)
Income Tax	128,400	128,400	89,246	(39,154)
Intergovernmental	5,834,887	5,992,394	6,126,598	134,204
Interest	102,150	102,150	70,969	(31,181)
Tuition and Fees	157,850	157,850	116,051	(41,799)
Rent	1,400	1,400	460	(940)
Extracurricular Activities			8,905	8,905
Gifts and Donations	10,700	10,700	10,000	(700)
Miscellaneous	71,675	71,675	72,929	1,254
<i>Total Revenues</i>	<u>10,741,936</u>	<u>11,113,180</u>	<u>10,967,693</u>	<u>(145,487)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,847,329	5,804,106	5,356,122	447,984
Special	1,348,900	1,343,844	1,287,128	56,716
Vocational	389,930	396,580	370,820	25,760
Other	71,804	77,704	69,013	8,691
Support Services:				
Pupils	596,354	627,068	551,634	75,434
Instructional Staff	393,731	395,643	363,302	32,341
Board of Education	30,590	30,840	15,150	15,690
Administration	1,139,229	1,128,042	1,010,353	117,689
Fiscal	309,708	316,587	280,065	36,522
Business	2,264	2,303	760	1,543
Operation and Maintenance of Plant	1,064,809	1,094,847	928,955	165,892
Pupil Transportation	925,855	916,155	819,927	96,228
Central	159,000	160,600	110,054	50,546
Operation of Non-Instructional Services	110	110	69	41
Extracurricular Activities	258,940	262,391	211,517	50,874
Capital Outlay	112,400	101,100	58,817	42,283
<i>Total Expenditures</i>	<u>12,650,953</u>	<u>12,657,920</u>	<u>11,433,686</u>	<u>1,224,234</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,909,017)</u>	<u>(1,544,740)</u>	<u>(465,993)</u>	<u>1,078,747</u>
Other Financing Sources and (Uses)				
Transfers In	9,600	9,600	9,600	
Proceeds from Sale of Fixed Assets	3,000	3,000		(3,000)
Refund of Prior Year Expenditures	15,000	15,000	43,149	28,149
Advances In	41,629	41,629	21,629	(20,000)
Transfers Out	100,000	100,000	79,600	20,400
Advances Out	50,000	50,000	38,500	11,500
<i>Total Other Financing Sources and Uses</i>	<u>(80,771)</u>	<u>(80,771)</u>	<u>(43,722)</u>	<u>37,049</u>
<i>Net Change in Fund Balances</i>	<u>(1,989,788)</u>	<u>(1,625,511)</u>	<u>(509,715)</u>	<u>1,115,796</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>2,434,001</u>	<u>2,434,001</u>	<u>2,434,001</u>	
Prior Year Encumbrances Appropriated	149,260	149,260	149,260	
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$593,473</u>	<u>\$957,750</u>	<u>\$2,073,546</u>	<u>\$1,115,796</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Net Assets
Fiduciary Funds
June 30, 2003**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$25,000	\$42,651
Cash and Cash Equivalents in Segregated Accounts	<u>2,980</u>	<u> </u>
<i>Total Assets</i>	<u><u>\$27,980</u></u>	<u><u>\$42,651</u></u>
Liabilities		
Current Liabilities:		
Undistributed Monies		<u>\$42,651</u>
<i>Total Liabilities</i>		<u><u>\$42,651</u></u>
Net Assts		
Restricted - Nonexpendable	<u>\$27,980</u>	
<i>Total Net Assets</i>	<u><u>\$27,980</u></u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	<u>Private Purpose Trust</u>
Net Assets Beginning of Year	<u>\$27,980</u>
<i>Net Assets End of Year</i>	<u><u>\$27,980</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Otsego Local School District (the School 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 School District serves an area of approximately 144 square miles.

The School 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 School District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The School District currently operates three elementary schools, one middle school, and one comprehensive high school. The School District employs 71 non-certified and 109 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 333rd out of approximately 612 School Districts in Ohio.

The Reporting Entity

The School District has implemented the Government Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the School District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which the School 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 School District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the School 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 OASBO/Sheakley Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18, and 19 and 20 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund is the School District's only major governmental fund:

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The general fund is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects of the School District whose uses are restricted to a particular purpose.

FIDUCIARY FUNDS

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

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The 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.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2003 investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

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, 2003.

The Board allocates all investment earnings to the General fund. Interest revenue credited to the General fund, during fiscal 2003 totaled \$71,541.

The School 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, 2003.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 5.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased, except for the food service fund. Inventories of the food service fund consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

G. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	15 - 40 years
Buildings and Buildings Improvements	15 - 40 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets.

I. Compensated Absences

Compensated absences of the School 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 School 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 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.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. 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 property taxes and encumbrances.

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

M. Interfund Transactions

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

N. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. Neither type of transactions occurred during 2003.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board Statement (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability of compensated absences that had not matured during fiscal year 2002.

B. Restatement of Fund Balance

The restatements for fund reclassifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

	General	Governmental Funds	Governmental Activities
Fund Balance June 30, 2002	\$2,074,263	\$485,645	\$2,559,908
Fund Reclassifications:		(22,645)	(22,645)
Interpretation 6 Adjustments:			
Compensated Absences Payable	74,872		74,872
Adjusted Fund Balance	\$2,149,135	\$463,000	2,612,135
GASB 34 Adjustments:			
Capital Assets			3,996,185
Long-Term Liabilities			(1,285,833)
Governmental Activities Net Assets at June 30, 2002			\$5,322,487

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

	Net Change in Fund Balance Major Governmental Fund
GAAP Basis	General (\$318,506)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2002, Received In Cash FY 2003	504,477
Accrued FY 2003, Not Yet Received in Cash	(755,759)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(942,376)
Accrued FY 2003, Not Yet Paid in Cash	1,097,343
Encumbrances Outstanding at Year End (Budget Basis)	(94,894)
Budget Basis	(\$509,715)

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

5. DEPOSITS 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 five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim 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 School 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;
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);

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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 School 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 School District had \$631 in undeposited cash on hand, which is included on the Balance Sheet of the School 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 School District's deposits was \$2,517,775 and the bank balance was \$2,798,342. Of the bank balance:

1. \$300,000 was covered by federal deposit insurance.
2. \$1,487,359 was collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.
3. \$1,010,983 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District held to a successful claim by the FDIC.

Investments: STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
Investment in State Treasurer's Investment Pool	\$331,442	\$331,442

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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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	\$2,849,848	
Cash on Hand	(631)	
Investments:		
STAR Ohio	(331,442)	\$331,442
GASB Statement No. 3	\$2,517,775	\$331,442

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Wood, Henry and Lucas Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$391,075 in the General Fund, \$3,263 in the Debt Service Fund and \$14,580 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$137,746,620	85%	\$148,526,360	86%
Industrial/Commercial	10,963,680	7%	11,416,020	6%
Public Utility	7,526,680	4%	6,801,930	4%
Tangible Personal	6,080,670	4%	6,515,346	4%
Total Assessed Value	\$162,317,650	100%	\$173,259,656	100%
Tax rate per \$1,000 of assessed valuation	\$59.10		\$49.60	

7. INCOME TAXES

The School District levies a voted tax of 1% percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2003, and is for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2003, consisted of property and income taxes, accounts (rent and student fees), intergovernmental, accrued interest, and loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

	Amount
Governmental Activities	
Title I	\$54,067
OSFC Emergency Repair	114,743
Title II-A	33,819
Miscellaneous Federal	387
Total Intergovernmental Receivables	\$203,016

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance at 06/30/02	Additions	Reductions	Balance at 06/30/03
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$143,659			\$143,659
Total Nondepreciable Capital Assets	143,659			143,659
Depreciable Capital Assets				
Buildings and Building Improvements	5,962,433	\$110,000		6,072,433
Furniture, Fixtures, and Equipment	938,344	94,540	\$7,693	1,025,191
Vehicles	945,521	157,097	68,917	1,033,701
Totals	7,846,298	361,637	76,610	8,131,325
Less Accumulated Depreciation				
Buildings and Building Improvements	2,886,909	179,698		3,066,607
Furniture, Fixtures, and Equipment	468,617	84,294	6,924	545,987
Vehicles	638,246	53,139	68,917	622,468
Total Accumulated Depreciation	3,993,772	317,131	75,841	4,235,062
Depreciable Capital Assets, Net	3,852,526	44,506	769	3,896,263
Governmental Activities				
Capital Assets, Net	\$3,996,185	\$44,506	\$769	\$4,039,922

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$227,877
Special	12,877
Vocational	2,519
Support Services:	
Instructional Staff	4,320
Administration	9,832
Fiscal	2,173
Operation and Maintenance of Plant	1,506
Pupil Transportation	43,574
Non-Instruction	1,683
Extracurricular	10,770
Total Depreciation Expense	\$317,131

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

The restated balance of capital assets as of June 30, 2002 was decreased by \$1,378,206, from \$5,374,391 to \$3,996,185, due to the change in the District's capitalization threshold from \$500 to \$2,000.

10. INTERFUND ASSETS/LIABILITIES

As of June 30, 2003, on the fund financial statements, the uniform school supply, the summer school subsidy, and the lunchroom special revenue funds owed the General Fund \$644, \$10,000 and \$10,000, respectively. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

11. RISK MANAGEMENT

The School 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 School 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 \$27,400,000 with 100 percent coinsurance.

The School District's fleet insurance policy has a liability limit of \$1,000,000 each occurrence and \$1,000,000 for uninsured motorists.

The School District has liability insurance coverage limits of \$1,000,000 per claim and \$3,000,000 annual aggregate.

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

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and

**OTSEGO LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

2001 were \$122,683, \$82,612, and \$93,094, respectively; 52 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$58,757.

B. State Teachers Retirement System

The School 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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing D Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$690,129, \$487,011, and \$223,719 respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and

**OTSEGO LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$51.45 made by the School District and \$2,630.53 made by the plan members. The unpaid contribution for fiscal year 2003 is \$100,377.

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, 2003, members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio 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 Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. 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, 2003, the allocation rate is 5.83 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 2003, the minimum pay has been established as \$14,500. 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.

**OTSEGO LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits were \$303.6 million.

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

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .4164, then adding the surcharge due as of June 30, 2003, as certified to your School District by SERS.

14. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent and Treasurer.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred eighty days for certified employees, twelve days beyond contract year for administrators, and two hundred sixty days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of seventy days for certified employees and sixty five days for classified employees.

15. 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 School District for which the full faith and credit of the School District is pledged for repayment. 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 School District, for which the School District's full faith and credit are pledged for repayment. 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, 2003:

Purpose	Interest Rate	Issue Date	Maturity Date	Balance at 07/01/02	Retired in Fiscal 2003	Balance at 06/30/03
School Energy Conservation Note	5.85%	7/1/94	7/1/04	\$70,000	\$35,000	\$35,000
School Facilities Improvement Bonds	5.00%	2/1/94	12/1/16	335,000	15,000	320,000
				<u>\$405,000</u>	<u>\$50,000</u>	<u>\$355,000</u>

**OTSEGO LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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

Fiscal year Ending June 30,	Principal	Interest	Total
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	20,000	12,250	32,250
2009-2013	115,000	45,125	160,125
2014-2017	120,000	12,750	132,750
Total	<u>\$355,000</u>	<u>\$130,047</u>	<u>\$485,047</u>

- C.** During the year ended June 30, 2003, the following changes occurred in liabilities reported in the Government-Wide Financial Statements. Compensated absences will be paid from the fund from which the employee is paid.

	Balance at 06/30/02	Increase	Decrease	Balance at 06/30/03	Amount Due In one Year
General Obligation Bonds	\$335,000		\$15,000	\$320,000	\$15,000
Energy Conservation Notes	70,000		35,000	35,000	35,000
Capital Leases	80,079		31,609	48,470	33,745
Compensated Absences	705,726	995,684	705,726	995,684	56,303
Total Long-Term Obligations	<u>\$1,190,805</u>	<u>\$995,684</u>	<u>\$787,335</u>	<u>\$1,399,154</u>	<u>\$140,048</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of a School District shall never exceed 9 percent of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the School District. The effects of these debt limitations for the School District at June 30, 2003 are a voted debt margin of \$15,238,369 and an unvoted debt margin of \$173,260.

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the School 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. These expenditures are reflected as program/function expenditures on a budgetary basis.

**OTSEGO LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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(Continued)**

Fixed assets acquired by lease have been capitalized in amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded. Principal payments in the 2003 fiscal year totaled \$31,609. 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, 2003:

General Fixed Assets

Modular Building, Carrying Value	\$250,990
----------------------------------	-----------

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, 2003:

General Long-Term Obligations	
Year Ending June 30:	Modular Building
2004	\$35,922
2005	14,967
Total Future Minimum Lease Payments	50,889
Less: Amount Representing Interest	2,419
Present Value of Future Minimum Lease Payments	\$48,470

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

17. 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, 2002	(\$216,580)	
Current Year Set-aside Requirement	203,899	\$203,899
Current Year Offsets		(160,024)
Qualifying Disbursements	(\$291,097)	(\$119,285)
Total	(\$303,778)	(\$75,410)
Set Aside Balance Carried Forward to FY 2004	(\$303,778)	

Although the School District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount to below zero, these extra amounts may not be used to reduce the

**OTSEGO LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

set-aside requirements of future years. Negative amount for the Capital Acquisition is not presented as being carried forward to the next fiscal year.

18. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The School 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 School District to NWOCA during this fiscal year were \$15,769. 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 six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. 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 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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

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.

19. 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 School District for operational subsidies. Although the School 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

20. GROUP PURCHASING POOLS

A. Wood County Schools Benefit Association

The School 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 School District pays an annual premium to Wood County Schools Benefit Association, for its employees' health and dental 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. OASBO/Sheakley Workers' Compensation Group Rating

The School District is a member of the OASBO/Sheakley Workers' Compensation Group Rating Program established in 2003. The program was created by the Ohio Association of School Business Officials 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.

21. 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.

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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

21. INTERFUND TRANSFERS

During the year ended June 30, 2003, the General Fund transferred \$70,000 to Other Non-major Governmental Funds. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

22. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003**

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	050724-LLP4-2002 050724-LLP4-2003	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)	050724-C1-S1-2002 050724-C1-S1-2003	84.010
Safe and Drug Free Schools (Title IV)	050724-DR-S1-2003	84.186
Eisenhower Professional Development Grant (Title II)	050724-MS-S1-2002	84.281
Innovative Education Program Strategies (Title VI)	050724-C2-S1-2003	84.298
Educational Technology State Grants	050724-TJ-S1-2003	84.318
Class Size Reduction (Title VI-R)		84.340
Assistive Technology Infusion Project	050724-ATS2&S3 2002	84.352A
Improving Teacher Quality State Grants	050724-TR-S1-2003	84.367
Total Department of Education		
<i>Passed Through Ohio School Facilities Commission</i>		
Emergency Repair Program	555	84.352A
Total Federal Awards Expenditures		

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>
	\$35,695		\$35,695
\$10,665			
70,315		\$80,980	
80,980	35,695	80,980	35,695
190,158		38,673	
<u>190,158</u>		<u>195,763</u>	
9,075		234,436	
		9,075	
		5,064	
9,215		9,114	
6,535		6,535	
		8,724	
19,276		19,276	
<u>53,862</u>		<u>52,282</u>	
288,121		344,506	
<u>67,817</u>		<u>14,129</u>	
\$436,918	\$35,695	\$439,615	\$35,695

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended June 30, 2003**

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 - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received. At June 30, 2003, the School District had no significant food commodities in inventory.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 the Otsego Local School District, Wood County, (the School District) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 17, 2004, in which we noted the School District adopted Governmental Accounting Standards Board Statement 34 and changed its fixed asset capitalization policy. 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 audits 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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of Otsego Local School District in a separate letter dated February 17, 2004.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

This report is intended solely for the information and use of the audit committee, management, and the Board of Education, 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

February 17, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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, Wood County (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, 2003. 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, 2003.

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, 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.



Betty Montgomery
Auditor of State

February 17, 2004

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Findings
OMB Circular A -133 § .505
June 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

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
MARCH 16, 2004**