



**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, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Otsego Local School District  
Wood County  
Independent Accountants' Report  
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Managements' Discussion and Analysis is not a required part of the financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's 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 also not a required part of the 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 financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

February 24, 2006

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2005 were as follows:

- In total, net assets decreased \$1,153,982
- General revenues accounted for \$13,019,544 in revenue or 87 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$1,897,152 or 13 percent of total revenues of \$14,916,696.
- The District had \$16,070,678 in expenses related to governmental activities. Only \$1,897,152 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.
- The District's major governmental funds are the General, Bond Retirement and the OSFC/ELPP Building Funds.
- The General Fund had \$12,125,698 in revenues and the other financing sources and \$12,508,853 in expenditures and other financing uses. The General Fund's balance decreased from \$1,858,870 to \$1,475,715.
- The Bond Retirement Fund had \$705,340 in revenues and other financing sources and \$893,554 in expenditures. The Bond Retirement Fund's balance decreased from \$436,586 to \$248,372.
- The OSFC/ELPP Building Fund had \$429,907 in revenues and \$1,695,337 in expenditures. The OSFC/ELPP Building Fund's balance decreased from \$18,209,588 to \$16,944,158. This is due to a high school construction project started in fiscal year 2005.

### **Using Basic Financial Statements**

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 and 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, the Bond Retirement Fund and the OSFC/ELPP Building Fund are by far the most significant funds, and the only governmental funds reported as major funds.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**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 2005"? 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 similar to the accounting used by most private-sector companies. This basis of accounting takes into account 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 resident's 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 major governmental funds are the General Fund, the Bond Retirement Fund, and the OSFC/ELPP Building 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.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**The District as a Whole**

The table below provides a summary of the District's net assets for 2005 compared to fiscal year 2004.

**Table 1  
Net Assets  
Governmental Activities**

	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current and Other Assets	\$25,535,743	\$25,533,856
Capital Assets, Net	5,005,213	4,429,204
Total Assets	<u>30,540,956</u>	<u>29,963,060</u>
<b>Liabilities</b>		
Current and other Liabilities	6,434,392	4,770,436
Long-Term Liabilities	19,537,848	19,469,926
Total Liabilities	<u>25,972,240</u>	<u>24,240,362</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	3,767,860	4,109,479
Restricted	275,155	506,314
Unrestricted	525,701	1,106,905
Total	<u>\$4,568,716</u>	<u>\$5,722,698</u>

Total liabilities increased \$1,731,878, or 7 percent. There was a sizable \$1,153,441 increase in deferred revenue, much of which corresponds to a bond levy passed in March 2004. In addition, there was a \$488,670 increase in contracts payable as result of contracts relating to the construction of the new high school.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

The table below shows the changes in net assets for fiscal year 2005 compared to fiscal year 2004.

**Table 2  
Change in Net Assets  
Governmental Activities**

	<b>2005</b>	<b>2004</b>
<b>Revenues</b>		
Program Revenues:		
Charges for Services and Sales	\$890,693	\$879,856
Operating Grants and Contributions	990,728	615,934
Capital Grants and Contributions	15,731	43,021
Total Program Revenues	<u>1,897,152</u>	<u>1,538,811</u>
General Revenues:		
Property Taxes	4,200,085	4,052,042
Income Tax	1,967,526	1,765,607
Grants and Entitlements	6,128,089	6,029,758
Gifts and Donations	9,302	39,454
Investment Earnings	486,801	457,897
Miscellaneous	220,433	186,234
Proceeds from Sale of Capital Assets	4,675	
Accrued Interest Received on Debt Issuance	2,633	
Total General Revenues	<u>13,019,544</u>	<u>12,530,992</u>
Total Revenues	<u>14,916,696</u>	<u>14,069,803</u>
<b>Expenses</b>		
Instruction:		
Regular	6,782,453	6,224,776
Special	2,032,479	1,515,810
Vocational	431,429	386,704
Other	63,821	65,014
Support Services:		
Pupils	695,399	689,415
Instructional Staff	435,013	417,818
Board of Education	23,362	23,531
Administration	1,145,171	1,032,393
Fiscal	345,189	346,653
Business	263	579
Operation and Maintenance of Plant	909,142	872,908
Pupil Transportation	702,382	301,146
Non-Instructional	530,445	523,329
Extracurricular Activities	364,978	136,728
Capital Outlay	653,414	912,626
Interest and Fiscal Charges	955,738	17,673
Total Expenses	<u>16,070,678</u>	<u>13,467,103</u>
Increase in Net Assets	<u>(\$1,153,982)</u>	<u>\$602,700</u>

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Governmental Activities**

Net assets of the District's governmental activities decreased by \$1,153,982. Total governmental expenses of \$16,070,678 were offset by program revenues of \$1,897,152. Program revenues supported 12 percent of the total governmental expenses.

Expenses increased \$2,603,575 or 19 percent. This is mainly attributed to special education expenditures for the Title VIB program previously handled by the Wood County Educational Service Center, interest payments on the new \$18,400,000 bond issue, and pupil transportation expenditures capitalized in 2004 for the bus garage construction.

Program revenue increased \$358,341 or 23 percent. This was mainly due to the District taking over as fiscal agent for the Title VIB program previously handled by the Wood County Educational Service Center.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 69 percent of total governmental activities revenue. Real estate property is appraised every six years.

The District's financial condition has improved significantly in the last 5 years, partially due to District voter's support. It is the expectation of the District that the Income Tax will provide financial stability rather than relying significantly on property tax. The District has also realized an increase in enrollment the last several years and as a result is the primary reason for the increase in state funding.

The District does not predict growth in state funding for this next biennial budget.

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 fiscal year 2004 are presented.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

**Table 3  
Governmental Activities**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
	<b>2005</b>	<b>2005</b>	<b>2004</b>	<b>2004</b>
Instruction:				
Regular	\$6,782,453	\$6,233,100	\$6,224,776	\$5,530,875
Special	2,032,479	1,452,691	1,515,810	1,243,008
Vocational	431,429	360,981	386,704	386,704
Other	63,821	63,821	65,014	65,014
Support Services:				
Pupils	695,399	662,229	689,415	678,357
Instructional Staff	435,013	435,013	417,818	417,818
Board of Education	23,362	23,362	23,531	23,531
Administration	1,145,171	1,124,942	1,032,393	977,909
Fiscal	345,189	345,189	346,653	346,653
Business	263	263	579	579
Operation and Maintenance of Plant	909,142	909,142	872,908	872,908
Pupil Transportation	702,382	686,651	301,146	301,146
Non-Instructional	530,445	33,947	523,329	114,473
Extracurricular Activities	364,978	233,043	136,728	44,914
Capital Outlay	653,414	653,414	912,626	906,730
Interest and Fiscal Charges	955,738	955,738	17,673	17,673
Total Expenses	<u>\$16,070,678</u>	<u>\$14,173,526</u>	<u>\$13,467,103</u>	<u>\$11,928,292</u>

The dependence upon tax revenues for governmental activities is apparent; 87 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 the 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 and other financing sources of \$15,024,738, and expenditures and other financing uses of \$16,782,625. There was a net negative change of \$1,757,887 in fund balance for the year.

### **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 2005, 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 \$12,266,910, below the original budget estimates of \$12,273,283. There was a 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.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

Final expenditures and other financing uses were budgeted at \$13,132,036 while actual expenditures and other financing uses were \$12,497,070. The \$634,966 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 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 \$1,598,496 at June 30, 2005.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$5,005,213 (net of accumulated depreciation) invested in land, land improvements, buildings, building improvements, furniture, fixtures, equipment and vehicles. This is an increase of 13 percent; mainly due to the construction in progress for the new high school. See Note 8 of the District's Basic Notes to the Financial Statements.

***Debt Administration***

At June 30, 2005, the District had \$290,000 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 Fund. The District also had an \$18,400,000 bond issue for construction of buildings. The bonds are being retired through the Bond Retirement Fund. At June 30, 2005, the District's overall legal debt margin was (\$2,225,950), with an un-voted debt margin of \$182,934.

The capital lease was paid in full in fiscal year 2005

**For the Future**

The District remains in a good financial position and despite the economy and the uncertainty of school funding; the District's projections indicate operating in the black through fiscal year 2007. The School District Income Tax revenue continues to collect at a lower pace than the original timeline provided by the Ohio Department of Taxation. The total projected income from the income tax was scaled back to \$1.8 million in November 2004 from the Ohio Department of Taxation from their original estimate of \$2.14 million. The District will use historical trends when projecting future revenue from the tax.

The District residents approved a 6.2 mill bond issue in March 2004. Proceeds from this levy will go toward the construction of a new high school including auditorium, renovations to the existing elementary schools, and demolition of the current middle school upon completion of the new high school.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, 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  
June 30, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,123,035
Investments	17,483,885
Materials and Supplies Inventory	10,407
Receivables:	
Interest	4,809
Accounts	4,134
Intergovernmental	50,840
Taxes	4,935,944
Income Taxes	922,689
Capital Assets:	
Non-Depreciable Capital Assets	1,119,512
Depreciable Capital Assets, net	<u>3,885,701</u>
Total Assets	<u>30,540,956</u>
<b>Liabilities:</b>	
Accounts Payable	77,362
Accrued Wages and Benefits	1,010,409
Contracts Payable	549,232
Intergovernmental Payable	293,115
Matured Compensated Absences Payable	70,274
Deferred Revenue	4,434,000
Long-Term Liabilities:	
Due Within One Year	206,891
Due in More Than One Year	<u>19,330,957</u>
Total Liabilities	<u>25,972,240</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	3,767,860
Restricted for Debt Service	274,586
Restricted for Other Purposes	569
Unrestricted	525,701
Total Net Assets	<u>\$ 4,568,716</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, 2005**

					Net (Expense) Revenue and Changes in Net Assets
	Program Revenues				
	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		
	Expenses				Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$ 6,782,453	\$ 429,777	\$ 119,576	\$	(6,233,100)
Special	2,032,479		579,788		(1,452,691)
Vocational	431,429		70,448		(360,981)
Other	63,821				(63,821)
Support Services:					
Pupils	695,399		33,170		(662,229)
Instructional Staff	435,013				(435,013)
Board of Education	23,362				(23,362)
Administration	1,145,171		20,229		(1,124,942)
Fiscal	345,189				(345,189)
Business	263				(263)
Operation and Maintenance of Plant	909,142				(909,142)
Pupil Transportation	702,382			\$ 15,731	(686,651)
Operation of Non-Instructional Services	530,445	346,535	149,963		(33,947)
Extracurricular Activities	364,978	114,381	17,554		(233,043)
Capital Outlay	653,414				(653,414)
Debt Service:					
Interest and Fiscal Charges	955,738				(955,738)
<i>Total Governmental Activities</i>	<u>\$ 16,070,678</u>	<u>\$ 890,693</u>	<u>\$ 990,728</u>	<u>\$ 15,731</u>	<u>\$ (14,173,526)</u>

**General Revenues:**

Taxes:				
Property Taxes, Levied for General Purposes			\$ 3,397,488	
Property Taxes, Levied for Capital Outlay			146,942	
Property Taxes, Levied for Debt Service			655,655	
Income Taxes			1,967,526	
Grants and Entitlements not Restricted to Specific Programs			6,128,089	
Gifts and Donations			9,302	
Investment Earnings			486,801	
Miscellaneous			220,433	
Proceeds from Sale of Capital Assets			4,675	
Accrued Interest Received on Debt Issuance			2,633	
<i>Total General Revenues</i>			<u>13,019,544</u>	
<i>Change in Net Assets</i>			<u>(1,153,982)</u>	
<i>Net Assets Beginning of Year</i>			<u>5,722,698</u>	
<i>Net Assets End of Year</i>			<u>\$ 4,568,716</u>	

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2005**

	<b>General Fund</b>	<b>Bond Retirement Fund</b>	<b>OSFC/ELPP Building Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents Investments	\$ 1,683,646	\$ 159,842	\$ 49,167	\$ 230,380	\$ 2,123,035
Materials and Supplies Inventory			\$ 17,483,885		\$ 17,483,885
Accrued Interest Receivable	4,809			10,407	10,407
Accounts Receivable	4,134				4,134
Interfund Receivable	2,017			5,000	7,017
Intergovernmental Receivable				50,840	50,840
Taxes Receivable	3,717,830	1,059,233		158,881	4,935,944
Income Taxes Receivable	922,689				922,689
<b>Total Assets</b>	<b>6,335,125</b>	<b>1,219,075</b>	<b>17,533,052</b>	<b>455,508</b>	<b>25,542,760</b>
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	37,509		39,662	191	77,362
Accrued Wages and Benefits	928,012			82,397	1,010,409
Contracts Payable			549,232		549,232
Interfund Payable	5,000			2,017	7,017
Intergovernmental Payable	264,406			28,709	293,115
Matured Compensated Absences Payable	69,244			1,030	70,274
Deferred Revenue	3,555,239	970,703		158,856	4,684,798
<b>Total Liabilities</b>	<b>4,859,410</b>	<b>970,703</b>	<b>588,894</b>	<b>273,200</b>	<b>6,692,207</b>
<b>FUND BALANCES:</b>					
Reserved:					
Reserved for Encumbrances	48,326		14,824,416	1,003	14,873,745
Reserved for Property Taxes	282,107	88,530		12,391	383,028
Unreserved, Undesignated, Reported in:					
General Fund	1,145,282				1,145,282
Special Revenue Funds				23,014	23,014
Debt Service Funds		159,842			159,842
Capital Projects Funds			2,119,742	145,900	2,265,642
<b>Total Fund Balances</b>	<b>1,475,715</b>	<b>248,372</b>	<b>16,944,158</b>	<b>182,308</b>	<b>18,850,553</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,335,125</b>	<b>\$ 1,219,075</b>	<b>\$ 17,533,052</b>	<b>\$ 455,508</b>	<b>\$ 25,542,760</b>

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, 2005**

Total Governmental Fund Balances	\$ 18,850,553
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	5,005,213
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Intergovernmental Receivable	\$ 11,206
Property Tax Receivable	120,076
Income Tax Receivable	<u>119,516</u>
	250,798

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

General Obligation Bonds Payable	(18,774,390)
Compensated Absences Payable	<u>(763,458)</u>
	<u>(19,537,848)</u>
Net Assets of Governmental Activities	<u>\$ 4,568,716</u>

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, 2005**

	<b>General Fund</b>	<b>Bond Retirement Fund</b>	<b>OSFC/ELPP Building Fund</b>	<b>All Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
Property and Other Local Taxes	\$ 3,404,527	630,306		\$ 146,963	\$ 4,181,796
Income Tax	1,963,511				1,963,511
Intergovernmental	6,117,714	72,401		964,881	7,154,996
Interest	57,894		\$ 428,907		486,801
Tuition and Fees	390,226			38,976	429,202
Rent	575				575
Extracurricular Activities	8,620			105,096	113,716
Gifts and Donations	4,800			22,056	26,856
Customer Sales and Services				347,200	347,200
Miscellaneous	173,156		1,000	46,277	220,433
Total Revenues	<b>12,121,023</b>	<b>702,707</b>	<b>429,907</b>	<b>1,671,449</b>	<b>14,925,086</b>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	6,096,691			204,267	6,300,958
Special	1,382,851			610,987	1,993,838
Vocational	404,170			2,700	406,870
Other	64,628			1,976	66,604
Support Services:					
Pupils	664,886			48,135	713,021
Instructional Staff	409,410			5,081	414,491
Board of Education	23,362				23,362
Administration	1,076,787			55,139	1,131,926
Fiscal	340,309	7,206		2,271	349,786
Business	263				263
Operation and Maintenance of Plant	903,211			28,956	932,167
Pupil Transportation	772,118			40,252	812,370
Operation of Non-Instructional Services	22			550,512	550,534
Extracurricular Activities	240,478			114,171	354,649
Capital Outlay	22,598		1,695,337	20,434	1,738,369
Debt Service:					
Principal	14,725	15,000			29,725
Interest		871,348			871,348
Total Expenditures	<b>12,416,509</b>	<b>893,554</b>	<b>1,695,337</b>	<b>1,684,881</b>	<b>16,690,281</b>
Expenditures Over Revenues	(295,486)	(190,847)	(1,265,430)	(13,432)	(1,765,195)
<b>Other Financing Sources and (Uses)</b>					
Transfers In				92,344	92,344
Proceeds from Sale of Fixed Assets	4,675				4,675
Transfers Out	(92,344)				(92,344)
Accrued Interest Received on Debt Issuance		2,633			2,633
Total Other Financing Sources and (Uses)	<b>(87,669)</b>	<b>2,633</b>	<b>-</b>	<b>92,344</b>	<b>7,308</b>
Net Change in Fund Balances	(383,155)	(188,214)	(1,265,430)	78,912	(1,757,887)
Fund Balance at Beginning of Year	1,858,870	436,586	18,209,588	103,396	20,608,440
Fund Balance at End of Year	<b>\$ 1,475,715</b>	<b>248,372</b>	<b>16,944,158</b>	<b>\$ 182,308</b>	<b>\$ 18,850,553</b>

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 Statement Activities  
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds	\$ (1,757,887)
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 depreciation exceeded capital outlays in the current year.	
Capital Outlay	\$ 1,340,995
Depreciation	<u>(343,955)</u>
	997,040
The cost of capital assets removed from the capital asset account on the statement of net assets results in a loss on disposal of capital assets on the statement of activities.	(421,031)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:	
Property Taxes	18,289
Income Taxes	4,015
Intergovernmental	<u>(38,002)</u>
	(15,698)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.	29,725
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities.	
Annual Accretion	<u>(84,390)</u>
	(84,390)
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	111,516
Compensated Absences Payable	<u>(13,257)</u>
	98,259
Change in Net Assets of Governmental Activities	\$ <u>(1,153,982)</u>

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  
GENERAL FUND  
For the Fiscal Year Ended June 30, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
Property and Other Local Taxes	\$ 3,451,404	\$ 3,435,945	\$ 3,523,080	\$ 87,135
Income Tax	2,182,800	2,182,800	2,040,177	(142,623)
Intergovernmental	5,957,177	5,955,108	6,117,714	162,606
Interest	51,017	51,092	54,433	3,341
Tuition and Fees	439,100	439,100	390,483	(48,617)
Rent	535	535	575	40
Extracurricular Activities	9,000	9,000	8,620	(380)
Gifts and Donations	8,200	8,200	4,800	(3,400)
Miscellaneous	107,050	118,130	136,243	18,113
Total Revenues	<b>12,206,283</b>	<b>12,199,910</b>	<b>12,276,125</b>	<b>76,215</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,350,309	6,348,921	6,058,189	290,732
Special	1,423,952	1,424,452	1,405,988	18,464
Vocational	415,462	416,462	401,166	15,296
Other	76,210	79,758	62,340	17,418
Support Services:				
Pupils	726,683	723,365	654,824	68,541
Instructional Staff	396,696	397,559	405,039	(7,480)
Board of Education	28,070	28,070	23,362	4,708
Administration	1,102,164	1,109,978	1,073,048	36,930
Fiscal	317,262	317,262	329,895	(12,633)
Business	1,300	1,300	512	788
Operation and Maintenance of Plant	1,003,212	1,000,862	917,864	82,998
Pupil Transportation	826,362	860,291	807,109	53,182
Operation of Non-Instructional Services	30	30	22	8
Extracurricular Activities	276,882	276,882	240,753	36,129
Capital Outlay	20,738	21,837	22,598	(761)
Total Expenditures	<b>12,965,332</b>	<b>13,007,029</b>	<b>12,402,709</b>	<b>604,320</b>
Expenditures over Revenues	<b>(759,049)</b>	<b>(807,119)</b>	<b>(126,584)</b>	<b>680,535</b>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Proceeds from Sale of Fixed Assets	2,000	2,000	4,675	2,675
Refund of Prior Year Expenditures	50,000	50,000	36,058	(13,942)
Advances In	15,000	15,000	35,644	20,644
Transfers Out	(75,000)	(75,000)	(92,344)	(17,344)
Refund of Prior Year Receipts	(7)	(7)		7
Advances Out	(50,000)	(50,000)	(2,017)	47,983
Total Other Financing Sources and Uses	<b>(58,007)</b>	<b>(58,007)</b>	<b>(17,984)</b>	<b>40,023</b>
Net Change in Fund Balances	<b>(817,056)</b>	<b>(865,126)</b>	<b>(144,568)</b>	<b>720,558</b>
Fund Balance at Beginning of Year	1,611,857	1,611,857	1,611,857	
Prior Year Encumbrances Appropriated	131,207	131,207	131,207	
Fund Balance at End of Year	<b>\$ 926,008</b>	<b>\$ 877,938</b>	<b>\$ 1,598,496</b>	<b>\$ 720,558</b>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2005**

	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 25,000	\$ 55,330
Cash and Cash Equivalents in Segregated Accounts	2,980	
Total Assets	<u><u>27,980</u></u>	<u><u>55,330</u></u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies		55,330
Total Liabilities		<u><u>55,330</u></u>
<b>NET ASSETS:</b>		
Restricted - Nonexpendable	27,980	
Total Net Assets	<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**

**Private Purpose  
Trust**

Net Assets Beginning of Year	\$ 27,980
Net Assets End of Year	\$ <u>27,980</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, 2005**

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

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

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

The District currently operates three elementary schools, one middle school, and one comprehensive high school. The District employs 70 non-certified and 111 certified (including administrative) full-time and part-time employees to provide services to approximately 1,725 students in grades kindergarten through 12 and various community groups, which ranks it 327 out of approximately 612 school districts in Ohio.

**The Reporting Entity**

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

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

The District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Educational Council, the Penta County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Weston Public Library, the Wood County Schools Benefit Association, and the OSBA/Sheakley Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statement and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

The District's basic financial statements consist of government-wide 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.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Government-Wide Financial Statements

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

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

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental 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 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 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 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, Bond Retirement Fund, and the OSFC/ELPP Building Fund are the District's only major governmental funds:

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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

OSFC/ELPP Building Fund - The OSFC/ELPP Building Fund is used to account for the revenues and expenditures related to the construction of new school buildings.

The other governmental funds of the District account for grants and other resources and capital projects of the 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The 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 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. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On 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, 2005, but which were levied to finance fiscal year 2006 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 measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**E. Budgetary Data**

Ohio law requires the Board of Education to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The Board of Education uses the fund as its legal level of control.

The certificate of estimated resources may be amended during the year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds other than the Major OSFC/ELPP Building Fund are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2005 investments included the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. Federal agency securities are reported at fair value, which is based on quoted market price.

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, 2005.

The Board allocates all investment earnings to the General Fund and the OSFC/ELPP Building Fund. Interest revenue credited to the General Fund and the OSFC/ELPP Building Fund, during fiscal 2005 totaled \$57,894 and \$428,907, respectively.

The District utilizes a financial institution to service bonded debt as principal and interest payments come due.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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 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 4.

**G. Inventory**

On the 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 and purchased food held for resale and are expensed when used.

**H. 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 District's capitalization threshold is two thousand dollars. The 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:

<b>Description</b>	<b>Estimated Lives</b>
Land Improvements	15 - 40 years
Buildings and Building Improvements	15 - 40 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

**I. 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.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**J. Compensated Absences**

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

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board (GASB), "Accounting for Compensated Absences," a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is 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 with ten (10) or more years of service and at least fifty (50) years of age, fifteen (15) years of service and at least forty five (45) years of age, 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 "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

**K. 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 and 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.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**L. 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 District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

**M. Fund Balance Reserves**

The 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.

**N. 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.

**O. Estimates**

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

**P. 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 District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**  
**(Continued)**

**3. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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.

<b>Net Change in Fund Balance Major Governmental Fund</b>		<b>General</b>
GAAP Basis		(\$383,155)
Increase (Decrease) Due To:		
Revenue Accruals:		
Accrued FY 2004, Received In Cash FY 2005	1,285,383	
Accrued FY 2005, Not Yet Received in Cash	(1,130,281)	
Expenditure Accruals:		
Accrued FY 2004, Paid in Cash FY 2005	(1,200,212)	
Accrued FY 2005, Not Yet Paid in Cash	1,335,229	
Advances	33,627	
Encumbrances Outstanding at Year End (Budget Basis)	(85,159)	
Budget Basis	<u>(\$144,568)</u>	

**4. DEPOSITS AND INVESTMENTS**

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

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

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS – (Continued)**

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

At year end, the District had \$631 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,098,819 of the District's bank balance of \$2,398,819 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS – (Continued)**

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of June 30, 2005, the District had the following investments

<b>Investment Type</b>	<b>Carrying and Fair Value</b>	<b>Maturity Less than 1 Year</b>	<b>Maturity 1-2 Years</b>	<b>Maturity 2-3 Years</b>
Money Market Mutual Fund	\$718,169	\$718,169		
Federal Farm Credit Bank	487,376		\$487,376	
Federal National Mortgage Association Notes	6,812,923	3,676,068	2,888,519	\$248,336
Federal Home Loan Mortgage Corporation Notes	3,904,109	1,685,274	2,019,960	198,875
Federal Home Loan Bank Notes	5,561,308	2,239,197	3,064,189	257,922
STAR Ohio	139,275	139,275		
Total Investments	<u>\$17,623,160</u>	<u>\$8,457,983</u>	<u>\$8,460,044</u>	<u>\$705,133</u>

**Interest Rate Risk** - As a means of limiting its exposure to fair value losses caused by rising interest rates, the District's investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk** - The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes and Federal Home Loan Bank Notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The money market fund carries a rating of AAA by Standard and Poor's. STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The District has no investment policy that would further limit its investment choices.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Notes and money market mutual fund are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS – (Continued)**

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. Of the District's total investments, 39 percent are Federal National Mortgage Association Notes, 32 percent are Federal Home Loan Bank Notes and 22 percent are Federal Home Loan Mortgage Corporation Notes. All other investments not explicitly guaranteed by the U.S. government are less than five percent of the District's total investments.

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 2005 were levied after April 1, 2005, on the assessed values as of December 31, 2004, 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 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2005, on the value as of December 31, 2004. 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 District receives property taxes from Wood, Henry and Lucas Counties. The county auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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, 2005 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 2005 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.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**5. PROPERTY TAXES – (Continued)**

The amount available as an advance at June 30, 2005, was \$282,107 in the General Fund, \$88,530 in the Bond Retirement Fund and \$12,391 in the Permanent Improvement Fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$154,709,070	86%	\$158,655,970	87%
Industrial/Commercial	11,902,540	7%	11,836,900	6%
Public Utility	7,005,790	4%	6,683,100	4%
Tangible Personal	5,844,418	3%	5,757,925	3%
Total Assessed Value	<u>\$179,461,818</u>	<u>100%</u>	<u>\$182,933,895</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$46.70		\$52.80	

**6. INCOME TAXES**

The 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 District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**7. RECEIVABLES**

Receivables at June 30, 2005, consisted of property and income taxes, accounts (rent and student fees), intergovernmental and accrued interest. 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:

	<u>Amount</u>
Governmental Activities	
Ohio Reads	\$799
Title I	29,067
Title V	3,646
Title II-A	16,529
Miscellaneous Federal Grant	799
Total Intergovernmental Receivables	<u>\$50,840</u>

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**8. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<b>Balance at 6/30/04</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at 6/30/05</b>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$143,659	\$28,500		\$172,159
Construction in Progress	947,353			947,353
Total Nondepreciable Capital Assets	143,659	975,853		1,119,512
Depreciable Capital Assets				
Buildings and Building Improvements	6,763,630	194,850	(\$664,941)	6,293,539
Furniture, Fixtures, and Equipment	990,113	46,776	(67,178)	969,711
Vehicles	1,031,529	123,516	(68,852)	1,086,193
Total Depreciable Capital Assets	8,785,272	365,142	(800,971)	8,349,443
Less Accumulated Depreciation				
Buildings and Building Improvements	3,246,404	(189,891)	251,946	3,184,349
Furniture, Fixtures, and Equipment	571,069	(85,179)	59,142	597,106
Vehicles	682,254	(68,885)	68,852	682,287
Total Accumulated Depreciation	4,499,727	(343,955)	379,940	4,463,742
Depreciable Capital Assets, Net	4,285,545	21,187	(421,031)	3,885,701
Governmental Activities Capital Assets, Net	<u>\$4,429,204</u>	<u>\$997,040</u>	<u>(\$421,031)</u>	<u>\$5,005,213</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$181,565
Special	14,243
Vocational	7,730
Support Services:	
Instructional Staff	3,848
Administration	6,908
Fiscal	2,592
Operation and Maintenance of Plant	5,385
Pupil Transportation	69,682
Non-Instruction	1,683
Extracurricular	14,932
Capital Outlay	35,387
Total Depreciation Expense	<u>\$343,955</u>

**9. INTERFUND ASSETS/LIABILITIES**

As of June 30, 2005, on the fund financial statements, the Ohio Reads Grant Special Revenue Fund owed the General Fund \$2,017 and the General Fund owed the Food Service Special Revenue Fund \$5,000. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive commercial insurance coverage for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

- Real property and contents have a liability limit of \$26,602,209 with 100 percent coinsurance.
- The District's fleet insurance policy has a liability limit of \$1,000,000 each occurrence.
- The District has liability insurance coverage limits of \$1,000,000 per claim and \$2,000,000 annual aggregate.
- The District has umbrella coverage of \$1,000,000 per occurrence and \$1,000,000 annual aggregate.

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

**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$191,294, \$171,990, and \$122,683, respectively; 53 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$118,680.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**11. DEFINED BENEFIT PENSION PLANS – (Continued)**

**B. State Teachers Retirement System**

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

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 DB 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, 2005, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003, were \$751,173, \$600,887, and \$690,129, respectively; 77 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$136,544. Member and employer contributions actually made for DC and Combined Plan participants will be provided upon written request.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**  
**(Continued)**

**11. DEFINED BENEFIT PENSION PLANS – (Continued)**

**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, 2005, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**12. POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial 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 eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% 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 years ended June 30, 2005, and June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. Premiums maybe reduced for retirees whose household income falls below the poverty level.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%, a decrease of 1.48% from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established as \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the District paid \$86,324 to fund health care benefits, including the surcharge.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**13. EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 21 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 to an unlimited amount for certified employees and administrators and up to a maximum of 280 days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 70 days for both certified and classified employees.

**14. LONG-TERM OBLIGATIONS**

All current general obligation bonds outstanding, issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these bonds are recorded as expenditures in the Bond Retirement Fund. The source of payment is derived from a current .20 mill bonded debt tax levy. The source of payment for the School Facilities Construction and Improvement Bonds is from a current 6.2 mill bonded debt tax levy.

The capital appreciation bonds are not subject to prior redemption. The maturity amount of the bonds is \$825,000. For fiscal year 2005, \$84,390 was accreted for a total bond value of \$319,390 at fiscal year end.

**A. The following is a description of the Otsego Local School District bonds outstanding as of June 30, 2005:**

Purpose	Interest Rate	Issue Date	Maturity Date	Balance at 06/30/04	Additions	Reductions	Balance at 06/30/05
School Facilities Construction and Improvement	2% to 5.37%	6/1/2004	12/1/2032	\$18,165,000			\$18,165,000
School Facilities Improvement	5.00%	2/1/1994	12/1/2016	305,000	\$15,000		290,000
Capital Appreciation	18.93%	6/1/2004	12/1/2010-12/1/2011	235,000			235,000
Accretion of Capital Appreciation Bonds					\$84,390		84,390
<b>Totals</b>				<b>\$18,705,000</b>	<b>\$84,390</b>	<b>\$15,000</b>	<b>\$18,774,390</b>

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**  
**(Continued)**

**14. LONG-TERM OBLIGATIONS – (Continued)**

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

Fiscal year Ending June 30,	Principal	Interest	Total
2006	\$155,000	\$909,034	\$1,064,034
2007	255,000	903,821	1,158,821
2008	335,000	895,159	1,230,159
2009	355,000	884,409	1,239,409
2010	390,000	872,279	1,262,279
2011-2015	1,750,000	4,822,120	6,572,120
2016-2020	3,015,000	3,674,436	6,689,436
2021-2025	3,845,000	2,774,265	6,619,265
2026-2030	4,955,000	1,639,175	6,594,175
2031-2033	3,635,000	299,790	3,934,790
Total	<u>\$18,690,000</u>	<u>\$17,674,488</u>	<u>\$36,364,488</u>

- C.** During the year ended June 30, 2005, 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 06/30/04	Increase	Decrease	Balance at 06/30/05	Amount Due Within One Year
General Obligation Bonds	\$18,705,000	\$84,390	\$15,000	\$18,774,390	\$155,000
Capital Leases	14,725		14,725		
Compensated Absences	750,201	13,257		763,458	51,891
Total Long-Term Obligations	<u>\$19,469,926</u>	<u>\$97,647</u>	<u>\$29,725</u>	<u>\$19,537,848</u>	<u>\$206,891</u>

**D. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of a District shall never exceed 9 percent of the total assessed valuation of the District unless the District qualifies as a "Special Needs District" under Revised Code Section 133.06 (E) as determined by the Superintendent of Public Instruction acting under policies adopted by the State Board of Education, which the District does qualify as. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The effects of these debt limitations for the District at June 30, 2005, are a voted debt margin of (\$2,225,950) and an unvoted debt margin of \$182,934.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**15. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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.

	<b>Textbooks</b>	<b>Capital Acquisition</b>
Set-aside Balance as of June 30, 2004	(\$409,927)	
Current Year Set-aside Requirement	209,513	\$209,513
Current Year Offsets		(167,650)
Qualifying Disbursements	(231,508)	(135,286)
Total	<u>(\$431,922)</u>	<u>(\$93,423)</u>
Set-aside Balance Carried Forward to FY 2006	<u>(\$431,922)</u>	

Although the 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 set-aside requirements of future years. Negative amounts for the capital acquisition are not presented as being carried forward to the next fiscal year.

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, Williams and Wood counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$31,112. Financial information can be obtained from Robin Pfund, 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, Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS – (Continued)**

**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 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.

**17. RELATED ORGANIZATION**

**Weston Public Library**

The Weston Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Otsego Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees

**18. GROUP PURCHASING POOLS**

**A. Wood County Schools Benefit Association**

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

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**18. GROUP PURCHASING POOLS – (Continued)**

**B. OSBA/Sheakley Workers' Compensation Group Rating**

The District is a member of the OSBA/Sheakley Workers' Compensation Group Rating Program established in April 2004. 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 section 4123.29, of the 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.

**19. STATE SCHOOL FUNDING DECISION**

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

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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**20. INTERFUND TRANSFERS**

During the year ended June 30, 2005, the General Fund transferred \$92,344 to other non-major governmental funds. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

**21. CONTINGENCIES**

**A. Grants**

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

**B. Litigation**

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

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**22. CONTRACTUAL COMMITMENTS**

As of June 30, 2005, the District had the following contractual purchase commitments relating to the Otsego Local School District 7-12<sup>th</sup> Grade Building Project:

<u>Company</u>	<u>Amount Remaining</u>
Mel Lanzer Co	\$ 9,822,017
L R Babcock Plumbing & Heating, Inc.	2,744,940
Woolace Electric Corp.	1,489,002
Farnham Equipment Co.	366,000
Garmann Miller	309,674
Strafford-Smith Inc.	253,395
Accel Fire Systems, Inc.	197,900
PSI Engineering	35,000
Stan & Associates, Inc.	25,247
Total	<u>\$15,243,175</u>

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2005**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Donation Program		10.550
National School Lunch Program	050724-LLP4-2004 050724-LLP4-2005	10.555
Total U.S. Department of Agriculture - Nutrition Cluster		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	050724-C1-S1-2004 050724-C1-S1-2005	84.010
Special Education Grants to States	050724-6BSF-2005	84.027
Safe and Drug Free Schools and Communities State Grant	050724-DR-S1-2005	84.186
State Grants for Innovative Programs	050724-C2-S1-2004 050724-C2-S1-2005	84.298
Education Technology State Grants	050724-TJ-S1-2004 050724-TJ-S1-2005	84.318
Improving Teacher Quality State Grants	050724-TR-S1-2004 050724-TR-S1-2005	84.367
Total Ohio Department of Education		
<b>Total Federal Awards Expenditures</b>		

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>
	\$ 51,413		\$ 51,413
\$ 23,693		\$ 23,693	
81,697		81,697	
<u>105,390</u>	<u>51,413</u>	<u>105,390</u>	<u>51,413</u>
23,126		24,208	
163,792		163,742	
<u>186,918</u>		<u>187,950</u>	
342,822		342,822	
7,242		7,242	
-		628	
3,865		3,751	
<u>3,865</u>		<u>4,379</u>	
-		768	
4,645		4,645	
<u>4,645</u>		<u>5,413</u>	
8,082		8,583	
92,176		90,872	
<u>100,258</u>		<u>99,455</u>	
<u>645,750</u>		<u>647,261</u>	
<u>\$ 751,140</u>	<u>\$ 51,413</u>	<u>\$ 752,651</u>	<u>\$ 51,413</u>

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**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (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 non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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

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## Auditor of State Betty Montgomery

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

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 governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

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

#### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 24, 2006, we reported other matters related to noncompliance we deemed immaterial.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Otsego Local School District  
Wood County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

*Betty Montgomery*

**Betty Montgomery**  
Auditor of State

February 24, 2006



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Otsego Local School District, Wood County complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005. In a separate letter to the District's management dated February 24, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Otsego Local School District  
Wood County  
Independent Accountants' Report on Compliance with Requirements  
Applicable to Each Major Federal Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133  
Page 2

### **Internal Control Over Compliance**

The District's management 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 District's internal control over compliance with requirements that could directly and materially affect a major federal program 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

February 24, 2006

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
June 30, 2005**

**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):	Special Education Grants to States CFDA # 84.027
(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





**Auditor of State  
Betty Montgomery**

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**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 16, 2006**