



**Auditor of State
Betty Montgomery**

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

Table of Contents

<i>Title</i>	<i>Page</i>
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	18
Fiduciary Funds:	
Statement of Net Assets.....	20
Statement of Changes in Net Assets	21
Notes to the Basic Financial Statements.....	22
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47
Schedule of Findings.....	49
Schedule of Prior Audit Findings	53

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Ottawa Hills Local School District
Lucas County
3600 Indian Road
Ottawa Hills, Ohio 43606-2425

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 Ottawa Hills Local School District, Lucas County, Ohio, (the District), as of and for the year ended June 30, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 2, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Betty Montgomery
Auditor of State

December 17, 2004

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- Net assets increased \$885,382, which represents a 27.4% increase from 2002.
- General revenues accounted for \$10,984,539 in revenue or 91.9% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$961,063 or 8.1% of total revenues of 11,945,602.
- The District had \$11,060,220 in expenses related to governmental activities; only \$961,063 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$10,984,539 were adequate to provide for these programs.
- The District's major fund, the general fund had \$10,217,301 in revenues and \$9,304,418 in expenditures. The general fund's fund balance increased \$892,772 to \$4,407,469. The increase was due to a combination of factors including an increase in tax revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the District's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
 - To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category of its activities:

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – 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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

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

	Governmental Activities
	2003
Current and other assets	\$15,590,569
Capital assets, Net	4,488,367
Total assets	20,078,936
Long-term debt outstanding	6,219,303
Other liabilities	9,747,408
Total liabilities	15,966,711
Net assets	
Invested in capital assets, net of related debt	(631,633)
Restricted	1,095,147
Unrestricted	3,648,711
Total net assets	\$4,112,225

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003:

	Governmental Activities
	2003
Revenues	
Program revenues:	
Charges for Services and Sales	\$515,717
Operating Grants and Contributions	445,346
General revenues:	
Property Taxes	7,950,459
Grants and Entitlements	2,885,299
Other	148,781
Total revenues	11,945,602
Program Expenses	
Instruction	6,743,085
Support Services:	
Pupils	431,307
Instructional Staff	411,448
Board of Education	16,877
Administration	831,068
Fiscal Services	330,722
Operation and Maintenance of Plant	1,148,316
Pupil Transportation	46,792
Central	34,879
Community Services	310,887
Extracurricular Activities	507,465
Debt Service:	
Interest and Fiscal Charges	247,374
Total expenses	11,060,220
Total Change in Net Assets	885,382
Beginning Net Assets	3,226,843
Total Change in Net Assets	\$4,112,225

Governmental Activities

Net assets of the District's governmental activities increased by \$885,382. This was due to a combination of factors including a decrease in debt service expenditures as the District retired one of its two general obligation bonds payable during 2002. In addition, federal grant receipts increased from the prior year and the District received more Parent-Teacher Organization and Mother Support Group revenues during 2003 than in 2002.

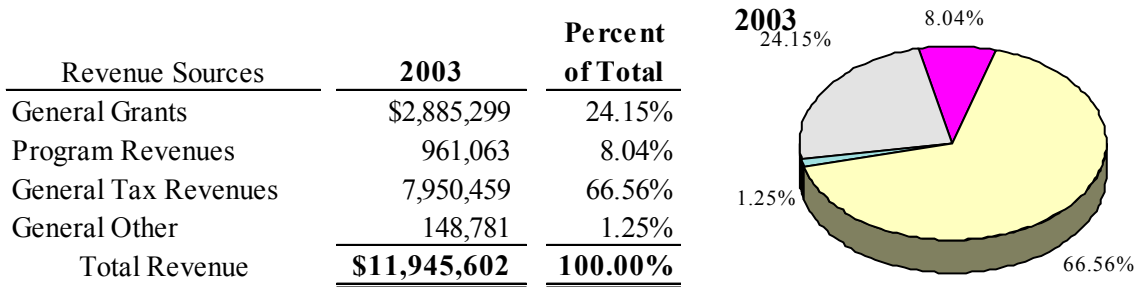
OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property taxes made up 66.56% of revenues for governmental activities for Ottawa Hills Local Schools in fiscal year 2003. The District's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$5,591,745, which is greater than last year's balance of \$4,662,678. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2003 and 2002.

	<u>Fund Balance June 30, 2003</u>	<u>Fund Balance June 30, 2002</u>	<u>Increase (Decrease)</u>
General	\$4,407,469	\$3,514,697	\$892,772
Other Governmental	1,184,276	1,147,981	36,295
Total	\$5,591,745	\$4,662,678	\$929,067

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

General Fund – The District's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2003 Revenues	2002 Revenues	Increase (Decrease)
Taxes	\$7,210,737	\$7,008,508	\$202,229
Tuition	1,439	8,157	(6,718)
Transportation Fees	2,150	2,112	38
Investment Earnings	125,500	151,638	(26,138)
Extracurricular Activities	52,495	53,980	(1,485)
Class Materials and Fees	41,795	38,147	3,648
Intergovernmental - State	2,770,291	2,769,324	967
All Other Revenue	12,894	14,858	(1,964)
Total	\$10,217,301	\$10,046,724	\$170,577

General Fund revenues in 2003 increased approximately 1.7% compared to revenues in fiscal year 2002. The primary factor contributing to this increase was a rise in tax revenues due to the District receiving an entire year's collection of tax receipts from the District's 1.9 mill operating levy.

	2003 Expenditures	2002 Expenditures	Increase (Decrease)
Instruction	\$6,111,985	\$6,007,944	\$104,041
Supporting Services:			
Pupils	434,976	385,608	49,368
Instructional Staff	324,513	311,770	12,743
Board of Education	16,877	26,889	(10,012)
Administration	787,242	724,743	62,499
Fiscal Services	313,927	341,794	(27,867)
Operation & Maintenance of Plant	989,016	932,405	56,611
Pupil Transportation	40,595	33,632	6,963
Central	14,879	31,202	(16,323)
Community Services	2,000	800	1,200
Extracurricular Activities	268,408	274,330	(5,922)
Total	\$9,304,418	\$9,071,117	\$233,301

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

The expenditures increased by 233,301 or 2.6% compared to the prior year mostly due to an increase in salaries and benefits for District personnel.

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

During the course of fiscal year 2003 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$10.2 million, below original budget estimates of \$10.4 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003 the District had \$4,488,367 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2002 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2003	2002	
Land	\$743,629	\$743,629	\$0
Land Improvements	827,027	827,027	0
Buildings and Improvements	6,385,888	6,385,888	0
Machinery/Equipment and Furniture/Fixtures	788,701	736,753	51,948
Vehicles	154,532	154,532	0
Less: Accumulated Depreciation	(4,411,410)	(4,176,447)	(234,963)
Totals	\$4,488,367	\$4,671,382	(\$183,015)

The primary increase occurred in machinery/equipment and furniture/fixtures, which included the acquisition of a printer, several laptop computers and a speaker system for the football stadium.

Additional information on the District's capital assets can be found in Note 9.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

Unaudited

Debt

At June 30, 2003, the District had \$5.12 million in bonds outstanding, \$220,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2003:

	<u>2003</u>	<u>2002</u>
Governmental Activities:		
General Obligation Bonds:		
School Improvement	\$5,120,000	\$5,330,000
Compensated Absences	<u>1,099,303</u>	<u>949,514</u>
Totals	<u>\$6,219,303</u>	<u>\$6,279,514</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2003, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 11.

ECONOMIC FACTORS

The Ottawa Hills Local School District relies upon local property taxes and state foundation monies to fund its operations. In fiscal year 2003 the District received approximately 80.1% of its revenues from local property taxes, 16.6% from the state foundation program, and the remaining 3.3% from other local sources. The District real estate value consists of 95.2% residential real estate, 3.1% commercial real estate, and 1.7% tangible personal property/public utilities personal property.

The District last passed a 1.9 mill continuing operating levy in November 2001 by a 65% margin. The District passed a 1.5 mill permanent improvement levy in November 2003 by a 74% margin. The permanent improvement levy will be levied for five years.

In conclusion, the Ottawa Hills Local School District's management has committed itself to financial prudence in the years to come.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, 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 Bradley Browne, Treasurer of Ottawa Hills Local School District.

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OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
Assets:	
Cash and Cash Equivalents	\$ 5,018,871
Investments	1,202,162
Receivables:	
Taxes	9,259,415
Accounts	1,793
Intergovernmental	27,255
Interest	2,989
Prepaid Items	78,084
Capital Assets, Net	<u>4,488,367</u>
Total Assets	<u>20,078,936</u>
Liabilities:	
Accounts Payable	32,381
Accrued Wages and Benefits	681,249
Intergovernmental Payable	219,707
Deferred Revenue - Taxes	8,733,449
Accrued Interest Payable	80,622
Long Term Liabilities:	
Due Within One Year	355,964
Due in More Than One Year	<u>5,863,339</u>
Total Liabilities	<u>15,966,711</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(631,633)
Restricted For:	
Capital Projects	283,881
Debt Service	754,649
Other Purposes	56,617
Unrestricted (Deficit)	<u>3,648,711</u>
Total Net Assets	<u>\$ 4,112,225</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction	\$ 6,743,085	\$ 224,630	\$ 37,774	\$ (6,480,681)
Support Services:				
Pupils	431,307	1,090	2,000	(428,217)
Instructional Staff	411,448	0	60,541	(350,907)
Board of Education	16,877	0	0	(16,877)
Administration	831,068	0	29,165	(801,903)
Fiscal Services	330,722	0	0	(330,722)
Operation and Maintenance of Plant	1,148,316	1,867	0	(1,146,449)
Pupil Transportation	46,792	2,150	0	(44,642)
Central	34,879	0	7,000	(27,879)
Community Services	310,887	0	308,866	(2,021)
Extracurricular Activities	507,465	285,980	0	(221,485)
Debt Service:				
Interest and Fiscal Charges	247,374	0	0	(247,374)
Total Governmental Activities	<u>11,060,220</u>	<u>515,717</u>	<u>445,346</u>	<u>(10,099,157)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				7,231,237
Debt Service				447,641
Capital Outlay				271,581
Grants and Entitlements not Restricted to Specific Programs				2,885,299
Investment Earnings				120,303
Miscellaneous				28,478
Total General Revenues				<u>10,984,539</u>
Change in Net Assets				885,382
Net Assets Beginning of Year				<u>3,226,843</u>
Net Assets End of Year				<u><u>\$ 4,112,225</u></u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and Cash Equivalents	\$ 3,829,726	\$ 1,189,145	\$ 5,018,871
Investments	1,202,162	0	1,202,162
Receivables:			
Taxes	8,433,937	825,478	9,259,415
Accounts	1,793	0	1,793
Intergovernmental	464	26,791	27,255
Interest	2,989	0	2,989
Interfund Loan Receivable	1,251	0	1,251
Prepaid Items	78,084	0	78,084
Total Assets	<u>\$ 13,550,406</u>	<u>\$ 2,041,414</u>	<u>\$ 15,591,820</u>
Liabilities:			
Accounts Payable	\$ 11,368	\$ 21,013	\$ 32,381
Accrued Wages and Benefits	681,249	0	681,249
Intergovernmental Payable	161,348	2,685	164,033
Interfund Loans Payable	0	1,251	1,251
Deferred Revenue - Taxes	8,225,436	806,310	9,031,746
Deferred Revenue	2,690	25,879	28,569
Compensated Absences Payable	60,846	0	60,846
Total Liabilities	<u>9,142,937</u>	<u>857,138</u>	<u>10,000,075</u>
Fund Balance:			
Reserved for Encumbrances	6,658	202,243	208,901
Reserved for Prepaid Items	78,084	0	78,084
Reserved for Property Taxes	201,713	18,489	220,202
Unreserved, Undesignated in:			
General Fund	4,121,014	0	4,121,014
Special Revenue Funds	0	92,955	92,955
Debt Service Fund	0	739,728	739,728
Capital Projects Funds	0	130,861	130,861
Total Fund Balance	<u>4,407,469</u>	<u>1,184,276</u>	<u>5,591,745</u>
Total Liabilities and Fund Balance	<u>\$ 13,550,406</u>	<u>\$ 2,041,414</u>	<u>\$ 15,591,820</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30, 2003***

Total Governmental Fund Balances	\$ 5,591,745
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	4,488,367
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	326,866
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds Payable	(5,120,000)
Compensated Absences Payable	(1,038,457)
Accrued Interest Payable	(80,622)
Pension Obligation	<u>(55,674)</u>
	(6,294,753)
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 4,112,225</u></u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 7,210,737	\$ 719,222	\$ 7,929,959
Tuition	1,439	0	1,439
Transportation Fees	2,150	0	2,150
Investment Earnings	125,500	0	125,500
Extracurricular Activities	52,495	250,541	303,036
Class Materials and Fees	41,795	48,732	90,527
Intermediate Sources	0	500	500
Intergovernmental - State	2,770,291	436,622	3,206,913
Intergovernmental - Federal	0	107,020	107,020
All Other Revenue	12,894	116,698	129,592
Total Revenue	10,217,301	1,679,335	11,896,636
Expenditures:			
Current:			
Instruction	6,111,985	393,777	6,505,762
Supporting Services:			
Pupils	434,976	3,144	438,120
Instructional Staff	324,513	71,455	395,968
Board of Education	16,877	0	16,877
Administration	787,242	38,141	825,383
Fiscal Services	313,927	9,622	323,549
Operation & Maintenance of Plant	989,016	160,587	1,149,603
Pupil Transportation	40,595	0	40,595
Central	14,879	20,000	34,879
Community Services	2,000	308,887	310,887
Extracurricular Activities	268,408	206,776	475,184
Capital Outlay	0	7,532	7,532
Debt Service:			
Principal Retirement	0	210,000	210,000
Interest & Fiscal Charges	0	250,681	250,681
Total Expenditures	9,304,418	1,680,602	10,985,020
Excess (Deficiency) of Revenues			
Over Expenditures	912,883	(1,267)	911,616
Other Financing Sources (Uses):			
Transfers In	0	33,000	33,000
Transfers Out	(33,000)	0	(33,000)
Refund of P/Y Expenditures	12,889	4,562	17,451
Total Other Financing Sources (Uses)	(20,111)	37,562	17,451
Net Change in Fund Balance	892,772	36,295	929,067
Fund Balances at Beginning of Year	3,514,697	1,147,981	4,662,678
Fund Balances End of Year	\$ 4,407,469	\$ 1,184,276	\$ 5,591,745

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2003***

Net Change in Fund Balances - Total Governmental Funds \$ 929,067

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in 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 period.

Capital Outlay	51,948	
Depreciation Expense	<u>(234,963)</u>	
		(183,015)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 31,515

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

210,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,307

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(104,067)	
Pension Obligation (Intergovernmental Payable)	<u>(1,425)</u>	
		<u>(105,492)</u>

Change in Net Assets of Governmental Activities **\$ 885,382**

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 7,284,084	\$ 7,218,046	\$ 7,218,046	\$ 0
Tuition	8,100	1,574	1,439	(135)
Transportation Fees	2,100	1,435	1,830	395
Investment Earnings	100,000	120,000	123,439	3,439
Extracurricular Activities	51,000	52,734	52,495	(239)
Class Material and Fees	35,540	37,351	42,014	4,663
Intergovernmental - State	2,893,000	2,754,072	2,770,291	16,219
All Other Revenues	7,750	12,142	12,075	(67)
Total Revenues	10,381,574	10,197,354	10,221,629	24,275
Expenditures:				
Current:				
Instruction	6,657,377	6,657,377	6,131,309	526,068
Support Services:				
Pupils	503,624	503,624	427,287	76,337
Instructional Staff	359,692	359,692	331,540	28,152
Board of Education	32,900	32,900	24,461	8,439
Administration	953,680	953,680	754,594	199,086
Fiscal Services	354,364	354,364	319,495	34,869
Operation and Maintenance of Plant	1,087,732	1,087,732	1,016,959	70,773
Pupil Transportation	78,721	78,721	40,871	37,850
Central	33,000	33,000	25,629	7,371
Community Services	2,000	2,000	2,000	0
Extracurricular Activities	291,369	291,369	267,641	23,728
Total Expenditures	10,354,459	10,354,459	9,341,786	1,012,673
Excess (Deficiency) of Revenues Over (Under) Expenditures	27,115	(157,105)	879,843	1,036,948

(Continued)

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Transfers Out	(40,000)	(40,000)	(33,000)	7,000
Advances Out	(1,000)	(1,000)	(912)	88
Refund of Prior Year's Expenditures	500	5,237	12,889	7,652
Total Other Financing Sources (Uses):	<u>(40,500)</u>	<u>(35,763)</u>	<u>(21,023)</u>	<u>14,740</u>
Net Change in Fund Balance	(13,385)	(192,868)	858,820	1,051,688
Fund Balance at Beginning of Year	4,129,161	4,129,161	4,129,161	0
Prior Year Encumbrances	24,155	24,155	24,155	0
Fund Balance at End of Year	<u>\$ 4,139,931</u>	<u>\$ 3,960,448</u>	<u>\$ 5,012,136</u>	<u>\$ 1,051,688</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust Funds	Agency Fund	Total
Assets:			
Cash and Cash Equivalents	\$ 56,161	\$ 45,571	\$ 101,732
Receivables:			
Accounts	0	230	230
Total Assets	<u>56,161</u>	<u>45,801</u>	<u>101,962</u>
Liabilities:			
Due to Students	0	45,801	45,801
Total Liabilities	<u>0</u>	<u>45,801</u>	<u>45,801</u>
Net Assets:			
Unrestricted	56,161	0	56,161
Total Net Assets	<u>\$ 56,161</u>	<u>\$ 0</u>	<u>\$ 56,161</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Private Donations	\$ 214
Total Contributions	<u>214</u>
Investment Earnings:	
Interest	744
Total Investment Earnings	<u>744</u>
Total Additions	<u>958</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>1,156</u>
Total Deductions	<u>1,156</u>
Change in Net Assets	(198)
Net Assets at Beginning of Year	<u>56,359</u>
Net Assets End of Year	<u>\$ 56,161</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Ottawa Hills Local School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 35 noncertified, 78 certified teaching personnel and 8 administrative employees providing education to 1,069 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. The District is a member of the Northwest Ohio Computer Association (NWOCA), a jointly governed organization which provides computer service to forty-one (41) school districts. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular and special education), student guidance, extracurricular activities and care and upkeep of grounds and buildings.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources).

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following is the District's only major governmental fund:

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

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

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary 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 therefore not available to support the District's own programs. The District's two trust funds are private-purpose trusts that account for scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation – Financial Statements

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. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or 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 each governmental function is self-financing or draws from the general revenues of the District.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees and interest on investments.

Current property taxes measurable at June 30, 2003, and which are not intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 30 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2003 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, agency fund and the private-purpose trust fund. Revenues are recognized when they are earned and expenses are recognized when incurred.

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.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

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.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level for the general fund and at the fund level for the remaining funds. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2003.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the object level for the general fund and at the fund level for all other funds. The appropriation resolution may be amended during the year as additional information becomes available, provided that appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations 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 governmental funds:

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	\$892,772
Increase (Decrease):	
Accrued Revenues at June 30, 2002, received during FY 2003	(214,070)
Accrued Revenues at June 30, 2002, received during FY 2003	217,486
Accrued Expenditures at June 30, 2002, paid during FY 2003	914,811
Accrued Expenditures at June 30, 2002, paid during FY 2003	(864,875)
FY 2002 Prepays for FY 2003	8,770
FY 2003 Prepays for FY 2004	(78,084)
Encumbrances Outstanding	(17,990)
Budget Basis	<u>\$858,820</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of less than three months.

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities 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 are reported as investments.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreement and certificates of deposit) which are reported at cost, which approximates fair value. See Note 4, "Cash, Cash Equivalents and Investments." During fiscal year 2003, investments were limited to certificates of deposit and federal agency securities.

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$125,500. Of that amount, \$25,630 was the amount allocated by other funds.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. The District follows the policy of not capitalizing assets with a cost of less than \$1,500.

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	20
Buildings and Improvements	30
Machinery/Equipment and Furniture/Fixtures	6-10
Vehicles	10

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Bond Retirement Fund
Compensated Absences	General Fund

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the vesting method. Employees earn 1.25 days of sick leave per month of service up to a maximum of 265 days for STRS employees and 250 days for SERS employees. Upon retirement, employees that pay into STRS will receive up to 36% of the accumulated sick leave up to a maximum of 95 days and employees that pay into SERS will receive up to 31.32% of the accumulated sick leave up to a maximum of 78 days. Administrators earn sick leave up to 290 days and will be paid up to 36% of accumulated sick leave up to a maximum of 104 days. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

M. 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.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Transactions

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 to the funds that initially paid for them are not presented on the financial statements.

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the District for the acquisition of textbooks, instructional materials and capital assets, and to create a reserve for budget stabilization.

Q. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for property taxes, supplies inventory, prepaid items, endowments, and encumbered amounts which have not been accrued at year end. In addition, fund balances are reserved by statute for budget stabilization, and for the purchase of textbooks, instructional materials and capital acquisitions.

R. Estimates

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Prior Period Adjustments

During the fiscal year ended June 30, 2003, the District restated governmental activities capital assets for depreciation. In addition, the governmental activities compensated absences payable balance at June 30, 2002 was restated due to the implementation of GASB Interpretation No.6. Also during 2003, an enterprise fund was reclassified as a special revenue fund.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

B. Changes in Accounting Principles

For fiscal year 2003, the District has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.*”

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District’s programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by conversion to the accrual basis of accounting.

C. Restatement of Fund Balance/Retained Earnings

The changes to the beginning retained earnings/fund balance, as well as the transition from fund balance to net assets of the governmental activities and the business-type activities are as follows:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Uniform School Supply</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2002	\$3,514,697	\$1,129,120	\$18,861	\$4,662,678
Adjustments to Fund Structure:				
Reclassified fund from Enterprise Fund to Special Revenue Fund	0	18,861	(18,861)	0
Adjusted Fund Balance	<u>3,514,697</u>	<u>1,147,981</u>	<u>0</u>	<u>4,662,678</u>
GASB 34 Adjustments:				
Capital Assets				4,671,382
Long-Term Liabilities				(6,402,568)
Long-Term (Deferred) Assets				295,351
Net Assets, June 30, 2002				<u><u>\$3,226,843</u></u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

A. Excess Appropriations over Estimated Revenues

Ohio Revised Code requires that appropriations do not exceed estimated revenues. Appropriations exceeded estimated revenues by \$1 in the Drug Free School Grant Fund, \$77 in the Miscellaneous Federal Grants Fund, \$8,160 in the District Managed Activity Fund, \$13,720 in the Schoolnet Professional Development Fund and \$30 in the Title VI-B Fund (special revenue funds). Under the cash basis of accounting, expenditures did not exceed revenues.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2003, expenditures exceeded appropriations at the object level (i.e., the legal level of budgetary control) as follows:

<u>Fund</u>	<u>Excess</u>
Special Revenue Fund:	
Other Grant Fund	\$494
One Net Ohio Program Fund	20,000

The excess expenditures were funded from available fund balance.

C. Certification of Funds

The District Treasurer did not certify all expenditures as required by Ohio Law.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, *“Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,”* collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions’ agent in the pool’s name are classified as Category 3.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

A. Deposits

At year end the carrying amount of the District's deposits was \$1,730,528 and the bank balance was \$2,198,327. The Federal Deposit Insurance Corporation (FDIC) covered \$100,273 of the bank balance and all remaining deposits were classified as Category 3.

B. Investments

The District's investments at June 30, 2003 are summarized below:

	<u>Category 1</u>	<u>Carrying Value/ Fair Value</u>
Categorized Investments		
Federal Government Securities	\$952,162	\$952,162
Total Categorized Investments	952,162	952,162
Noncategorized Investments		
STAR Ohio	N/A	3,640,075
Total Investments	<u>\$952,162</u>	<u>\$4,592,237</u>

The District's investment in the State Treasurer's pool (STAR Ohio) is not categorized or assigned a risk category because it is not evidenced by securities that exist in physical or book entry form.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$5,120,603	\$1,202,162
Certificates of Deposit (with maturities of more than 3 months)	250,000	(250,000)
STAR Ohio	<u>(3,640,075)</u>	<u>3,640,075</u>
Per GASB Statement No. 3	<u>\$1,730,528</u>	<u>\$4,592,237</u>

NOTE 5 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 5 – TAXES (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Ottawa Hills Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2003, upon which the 2002 levies were based, were as follows:

	2002 Second Half Collections	2003 First Half Collections
Agricultural/Residential and Other Real Estate	\$162,864,010	\$164,334,180
Public Utility Personal	1,957,820	1,974,540
Tangible Personal Property	459,795	781,282
Total Assessed Value	\$165,281,625	\$167,090,002
Tax rate per \$1,000 of assessed valuation	\$114.50	\$114.35

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts, interest and intergovernmental receivables. All receivables are considered collectable 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.

NOTE 7 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2003:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$1,251	\$0
Nonmajor Governmental Funds:		
Public School Support Fund	0	282
District Managed Student Activity Fund	0	57
Title VI Fund	0	912
Total Nonmajor Governmental Funds	0	1,251
Totals	\$1,251	\$1,251

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2003:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$33,000
Nonmajor Governmental Fund:		
District Managed Student Activity Fund	33,000	0
Total All Funds	\$33,000	\$33,000

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 9 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2003:

Historical Cost:

Class	Restated June 30, 2002	Additions	Deletions	June 30, 2003
Capital assets not being depreciated:				
Land	\$743,629	\$0	\$0	\$743,629
Capital assets being depreciated:				
Land Improvements	827,027	0	0	827,027
Buildings and Improvements	6,385,888	0	0	6,385,888
Machinery/Equipment and Furniture/Fixtures	736,753	51,948	0	788,701
Vehicles	154,532	0	0	154,532
Total Cost	<u>\$8,847,829</u>	<u>\$51,948</u>	<u>\$0</u>	<u>\$8,899,777</u>
Accumulated Depreciation:				
Class	Restated June 30, 2002	Additions	Deletions	June 30, 2003
Land Improvements	(\$347,835)	(\$34,238)	\$0	(\$382,073)
Buildings and Improvements	(2,880,381)	(147,384)	0	(3,027,765)
Machinery/Equipment and Furniture/Fixtures	(847,973)	(47,180)	0	(895,153)
Vehicles	(100,258)	(6,161)	0	(106,419)
Total Depreciation	<u>(\$4,176,447)</u>	<u>(\$234,963) *</u>	<u>\$0</u>	<u>(\$4,411,410)</u>
Net Value:	<u>\$4,671,382</u>			<u>\$4,488,367</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$188,480
Support Services:	
Pupils	1,162
Instructional Staff	8,123
Administration	2,167
Fiscal Services	1,080
Operations & Maintenance of Plant	3,471
Pupil Transportation	6,161
Extracurricular Activities	24,319
Total Depreciation Expense	<u>\$234,963</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 9% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2003, (latest information available) 8.17% was allocated to fund the pension benefit and 5.83% to fund health care. The District's required contributions to the SERS of Ohio for the years ending June 30, 2003, 2002, and 2001 were \$88,888, \$43,542, and \$42,620, respectively: 91.93 percent has been paid for the year ended 2003 and 100 percent has been paid for 2002 and 2001. The unpaid contribution for the year ended 2003, in the amount of \$7,174 is recorded as a liability

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2003 employer contribution rate (latest information available) that was used to fund health care for the year 2003 was 5.83%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. The amount contributed to fund health care benefits, including the surcharge amounted to \$69,928.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 50,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182,946,777 and the target level was \$274.4 million. Net assets available for payment of benefits at June 30, 2002 was \$335.2 million.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 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.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 9.3%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2003, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2003, 2002, and 2001 were \$627,320, \$446,849, and \$422,459, respectively: 91.62 percent being paid in 2003 and 100 percent has been contributed for the years ended 2002 and 2001. The unpaid contribution for the year ended 2003 in the amount of \$52,584, is recorded as a liability.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

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

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2003, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$48,255 for the District. The balance of the Health Care Reserve Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, the net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

NOTE 11 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2003 is as follows:

	<u>Balance</u>				<u>Balance</u>	<u>Amount Due</u>
	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>		<u>June 30, 2003</u>	<u>Within</u>
						<u>One Year</u>
Governmental Activities:						
General Obligation Bonds:						
1998 School Improvement 4.75%	\$5,330,000	\$0	(\$210,000)		\$5,120,000	\$220,000
Compensated Absences	<u>949,514</u>	<u>149,789</u>	<u>0</u>		<u>1,099,303</u>	<u>135,964</u>
Total Long-Term Obligations	<u>\$6,279,514</u>	<u>\$149,789</u>	<u>(\$210,000)</u>		<u>\$6,219,303</u>	<u>\$355,964</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 11 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2003, follows:

Years	General Obligation Bonds	
	Principal	Interest
2004	\$220,000	\$240,588
2005	235,000	230,019
2006	245,000	218,737
2007	265,000	206,863
2008	280,000	194,038
2009 - 2013	1,675,000	751,094
2014 - 2018	2,200,000	299,131
Totals	<u>\$5,120,000</u>	<u>\$2,140,470</u>

NOTE 12 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2003, the reserve activity (cash-basis) was as follows:

	Textbook	Capital	Total
	Reserve	Acquisition Reserve	
Set-aside Balance as of June 30, 2002	(\$147,390)	\$0	(\$147,390)
Current Year Set-Aside Requirement	141,604	141,604	283,208
Current Year Offset Credits	0	0	0
Qualifying Disbursements	<u>(270,664)</u>	<u>(271,641)</u>	<u>(542,305)</u>
Total	<u>(\$276,450)</u>	<u>(\$130,037)</u>	<u>(\$406,487)</u>
Balance Carried Forward to FY 2004	<u>(\$276,450)</u>	<u>\$0</u>	<u>(\$276,450)</u>

The district had qualifying disbursements and balance carry forward that reduced the textbook set-aside amount below zero, this extra amount is being carried forward to reduce the set-aside requirements of future years.

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amounts below zero, this extra amount may not be used to reduce the set-aside requirements of future years. This negative amount is therefore not presented as being carried forward to the next fiscal year.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 13 - CONSTRUCTION COMMITMENTS

As of June 30, 2003, the District had the following commitment with respect to capital projects:

Project	Remaining Construction Commitment	Expected Date of Completion
Electrical Improvements - High School and Elementary School Buildings	\$152,167	August 2003

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

Northwest Ohio Computer Association (NWOCA) - The District is a participant in the Northwest Ohio Computer Association (NWOCA) which is a computer consortium. NWOCA is an association of twenty-eight educational entities, primarily school districts, located in Henry, Fulton, Defiance, Williams, Lucas 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 members. NWOCA is governed by its participating members, which consists of a representative from each member entity and a representative from the fiscal agent. Financial information can be obtained from the Northwest Ohio Computer Association, Duane Baker, Executive Director, 22-900 State Route 34, Archibold, Ohio 43502.

Northern Buckeye Council - The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts 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 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 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. Total disbursements made by the District to NBEC during this fiscal year were \$63,725. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, Who serves as Treasurer, at 22-900 State Route 34, Archibold, Ohio 43502.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 15 - 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; and natural disasters. During fiscal year 2003 the District contracted with several different insurance providers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Selective Insurance Company	Automobile	\$500
Selective Insurance Company	Property	\$1,000
Selective Insurance Company	Commercial	\$1,000
Tudor Insurance Company	Education Liability	\$5,000

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 16 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. State School Funding

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-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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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

NOTE 17 – OPERATING LEASE

The District entered into an operating lease in fiscal year 2002 with the Northwest Ohio Computer Association (NWOCA) for a high bandwidth dedicated connection to NWOCA for a period of fifteen (15) years. The District elected a payment plan over 15 years , with an annual payment of \$31,000. Lease payments totaled \$31,000 for the year.

The following is a schedule of future minimum payments under the operating lease as of June 30, 2003:

Fiscal Year Ending June 30,	
2004	31,000
2005	31,000
2006	31,000
2007	31,000
2008	31,000
2009 - 2013	155,000
2014 - 2016	93,000
Total Minimum Lease Payments	<u>\$ 403,000</u>

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**Auditor of State
Betty Montgomery**

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

Ottawa Hills Local School District
Lucas County
3600 Indian Road
Ottawa Hills, Ohio 43606-2425

To the Board of Education:

We have audited the financial statements of Ottawa Hills Local School District, Lucas County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2004 in which we noted the District implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 thru 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 17, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A Reportable condition is described in the accompanying schedule of findings as item 2003-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2003-005 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 17, 2004.

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



Betty Montgomery
Auditor of State

December 17, 2004

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Findings
Fiscal Year End June 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

17 CFR Section 240.15c2-12 requires the School District to file an annual report by the date specified in the debt covenants with the Nationally Recognized Municipal Security Information Repositories (NRMSIRs) and to the State Information Depository (SID). The debt covenant requires that the annual report be filed by December 31 of each year. When the audited report is available, it is to be filed also. The School District is on a biennial audit basis, and did not file any report with NRMSIRs for fiscal year 2003. Failure to file the annual report is in violation of the debt covenant. We recommend the School District file their unaudited GAAP financial statements with the required organizations on or before December 31 of each year.

FINDING NUMBER 2003-002

Ohio Revised Code § 5705.41(D), states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

The following exceptions to this basic requirement are provided by statute:

- A. Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time the contract or order was made and at the time he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

- B. Amounts of less than \$1,000 (\$3,000 eff. 4/7/03) may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

**FINDING NUMBER 2003-002
 (Continued)**

For seventeen percent of the expenditures tested, prior certification was not obtained nor was a then and now certificate utilized. For seven percent of the expenditures we tested, the Purchase Order/requisition was not certified by the Treasurer. Certification is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of District funds being over expended or exceeding budgetary spending limitations as set by the Board.

We recommend that the Treasurer certify all purchase orders before an obligation is incurred. If this is not possible, the Treasurer should use the “then and now” certificate and the Board of Education should pass the necessary resolution for those disbursements over \$1,000 (\$3,000 effective April 1, 2003). Failure to do this could result in incurred obligations exceeding available resources. Further, if obligations are incurred, but not paid by the end of the fiscal year, the payment for these obligations would be charged against the subsequent year’s appropriations.

FINDING NUMBER 2003-003

Ohio Revised Code § 5705.39 states no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. The District did not file their annual appropriations resolution or amendments for fiscal year 2003 with the Budget Commission, nor with the County Auditor. Failure to file their annual appropriations resolution could result in deficit spending by the District. We recommend the District submit their total appropriations and any amendments to the Budget Commission and County Auditor, enabling them to determine if the total appropriations from each fund exceed the total official estimate or amended official estimate.

FINDING NUMBER 2003-004

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making expenditure unless it has been properly appropriated. At June 30, 2003 the following are instances in which expenditures exceed appropriations in the following funds at the legal level of control:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Other Grants	\$ 826	\$ 1,320	\$ (494)
OneNet Ohio Program	-	20,000	(20,000)

**FINDING NUMBER 2003-004
(Continued)**

Management was advised that the failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures to exceed available resources, further resulting in deficit spending practices.

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimate resources, if necessary.

FINDING NUMBER 2003-005

Material Weakness - Fixed Asset Controls

The following control weaknesses over fixed assets exist:

- The District has not adopted a fixed asset policy.
- The District has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of, throughout the year.

Failure to employ adequate controls over the acquisition, disposal, and recording of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

To maintain adequate safeguards over fixed assets, and to reduce the risk that the District's assets will be misstated, we recommend:

- The Governing Board develops and adopts a fixed asset capitalization policy. This policy should include but not be limited to: procedures for recording fixed asset additions and deletions, capitalization threshold for fixed assets, life of fixed assets by classification, depreciation policy, and so forth.

FINDING NUMBER 2003-005
(Continued)

- The Governing Board develops and implements procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging and tracking all assets meeting the District's capitalization criteria. Further, addition and disposal forms should be completed by the District and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location, and any other supporting documentation creating a master fixed asset listing.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Prior Audit Findings
Fiscal Year End June 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	17 CFR Section 240.15c2-12, filing of annual report with NRMSIRS & SID	No	Not corrected. Citation reissued as Finding number 2003-001
2002-002	Revised Code § 5705.41(D), prior certification by Treasurer	No	Not corrected. Citation reissued as Finding number 2003-002
2002-003	Revised Code § 5705.39, filing of annual appropriations and amendments with County Auditor	No	Not corrected. Citation reissued as Finding number 2003-003
2002-004	Revised Code § 5705.41(B), expenditures exceeding appropriations	No	Not corrected. Citation reissued as Finding number 2003-004
2002-005	Material Weakness – Fixed Asset Controls	No	Not corrected. Citation reissued as Finding number 2003-005



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**OTTAWA HILLS LOCAL SCHOOL DISTRICT
LUCAS 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
JANUARY 13, 2005**