

**OTTAWA HILLS LOCAL SCHOOL DISTRICT
LUCAS COUNTY**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Ottawa Hills Local School District
3600 Indian Rd.
Ottawa Hills, OH 43606-2425

We have reviewed the *Independent Auditor's Report* of the Ottawa Hills Local School District, Lucas County, prepared by LublinSussman Group, LLP, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ottawa Hills Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 13, 2006

This Page is Intentionally Left Blank.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

TABLE OF CONTENTS

Independent Auditor's 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:	
<i>Governmental Funds:</i>	
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
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets	19
Notes to the Basic Financial Statements	20
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual (Non-GAAP Budgetary Basis):	
General Fund	44
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	45
Schedule of Findings	47
Schedule of Prior Audit Findings	50

LublinSussman Group LLP
Certified Public Accountants

INDEPENDENT AUDITOR'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 statement of the governmental activities, each major fund, and the aggregate remaining fund information of Ottawa Hill Local School District, Lucas County, Ohio, (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

www.lublinsussman.com

Douglas J. Welch, CPA, CVA
Lee D. Wunschel, CPA
Thomas J. Jaffee, JD, CPA
Terri S. Lee, CPA

Branch Office
621 Croghan Street
Fremont, Ohio 43420
(419) 332-1513

Members:
American Institute of Certified Public Accountants
AICPA-Private Companies Practice Section
Ohio Society of Certified Public Accountants

Ottawa Hills Local School District
Lucas County
Independent Auditor's Report

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Lublin Sussman Group LLP

March 22, 2006
Toledo, Ohio

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 2005 are as follows:

- Net assets increased \$921,370, which represents a 20% increase from 2004.
- General revenues accounted for \$12,002,947 in revenue or 90% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,345,107 or 10% of total revenues of \$13,348,054.
- The District had \$12,599,723 in expenses related to governmental activities; only \$1,345,107 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12,002,947 were adequate to provide for these programs.
- The District's General Fund had \$10,790,881 in revenues and \$10,343,758 in expenditures. The General Fund's fund balance increased \$15,774 to \$4,756,837. General Fund revenues and expenditures increased approximately 5% respectively. Overall, revenues continued to exceed expenditures.

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

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

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

	Governmental Activities		Increase (Decrease)
	2005	2004	
Current and other assets	\$18,049,741	\$16,110,443	\$1,939,298
Capital assets, Net	4,933,070	4,502,146	430,924
Total assets	<u>22,982,811</u>	<u>20,612,589</u>	<u>2,370,222</u>
Long-term debt outstanding	5,902,154	5,989,869	(87,715)
Other liabilities	<u>11,446,153</u>	<u>9,909,586</u>	<u>1,536,567</u>
Total liabilities	<u>17,348,307</u>	<u>15,899,455</u>	<u>1,448,852</u>
Net assets			
Invested in capital assets, net of related debt	268,070	(397,854)	665,924
Restricted	1,211,498	1,083,524	127,974
Unrestricted	<u>4,154,936</u>	<u>4,027,464</u>	<u>127,472</u>
Total net assets	<u>\$5,634,504</u>	<u>\$4,713,134</u>	<u>\$921,370</u>

This space intentionally left blank.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2005 compared to 2004:

	Governmental Activities	
	2005	2004
Revenues		
Program revenues:		
Charges for Services and Sales	\$591,044	\$319,171
Operating Grants and Contributions	630,138	531,468
Capital Grants and Contributions	123,925	0
General revenues:		
Property Taxes	8,621,623	8,168,770
Grants and Entitlements	2,950,407	2,863,861
Other	430,917	187,853
Total revenues	<u>13,348,054</u>	<u>12,071,123</u>
Program Expenses		
Instruction	7,864,755	7,024,135
Support Services:		
Pupils	490,739	435,676
Instructional Staff	483,417	525,429
Board of Education	23,296	30,882
Administration	863,236	786,665
Fiscal Services	354,220	362,108
Operation and Maintenance of Plant	1,125,258	1,119,629
Pupil Transportation	45,958	51,695
Central	48,595	55,541
Community Services	361,778	335,620
Extracurricular Activities	538,708	505,710
Debt Service:		
Interest and Fiscal Charges	226,724	237,124
Total expenses	<u>12,426,684</u>	<u>11,470,214</u>
Total Change in Net Assets	921,370	600,909
Beginning Net Assets	<u>4,713,134</u>	<u>4,112,225</u>
Ending Net Assets	<u>\$5,634,504</u>	<u>\$4,713,134</u>

Governmental Activities

Net assets of the District's governmental activities increased \$921,370. Charges for services and sales increased substantially as a result of fees received from participants of the Agora 2005 program, which is a curriculum enhancement program. Property taxes also increased as a result of a 5.7 mill operating levy passed in November 2004. Contributions from various school support groups for computer lab upgrades caused the increase in other revenues. Expenditures for instruction increased as a result of additional hiring of teachers, increases in health insurance and textbook purchases.

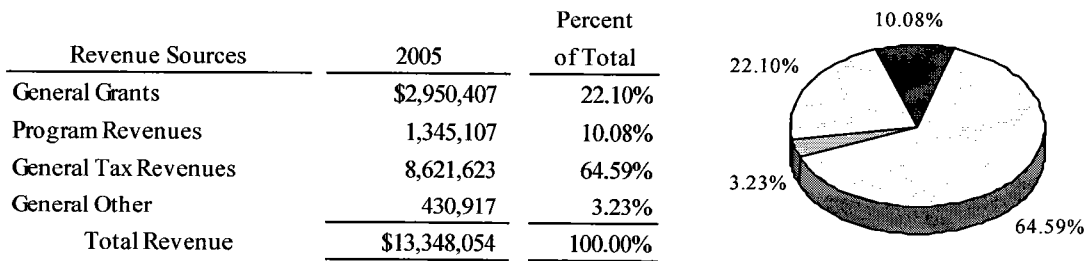
OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

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 65% of revenues for governmental activities for Ottawa Hills Local Schools in fiscal year 2005. 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 \$6,105,545, which is greater than last year's balance of \$5,973,002. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Fund Balance June 30, 2004	Increase (Decrease)
General	\$4,756,837	\$4,741,063	\$15,774
Other Governmental	1,348,708	1,231,939	116,769
Total	\$6,105,545	\$5,973,002	\$132,543

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:

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$7,639,597	\$7,340,644	\$298,953
Tuition	36,144	12,292	23,852
Transportation Fees	1,904	3,795	(1,891)
Investment Earnings	173,050	64,553	108,497
Extracurricular Activities	50,296	53,780	(3,484)
Class Materials and Fees	46,105	41,271	4,834
Intergovernmental - State	2,839,846	2,760,674	79,172
All Other Revenue	3,939	5,505	(1,566)
Total	\$10,790,881	\$10,282,514	\$508,367

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

General Fund revenues in 2005 increased approximately 5% compared to fiscal year 2004. Property taxes increased as a result of a 5.7 mill operating levy passed in November 2004. Increases in short term interest rates caused the increase in investment earnings.

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Instruction	\$6,859,093	\$6,493,500	\$365,593
Supporting Services:			
Pupils	462,241	424,527	37,714
Instructional Staff	383,195	384,270	(1,075)
Board of Education	23,296	30,882	(7,586)
Administration	779,747	698,665	81,082
Fiscal Services	354,487	348,937	5,550
Operation & Maintenance of Plant	1,090,522	1,018,948	71,574
Pupil Transportation	42,884	65,825	(22,941)
Central	42,595	49,541	(6,946)
Community Services	2,000	2,000	0
Extracurricular Activities	303,698	292,044	11,654
Total	\$10,343,758	\$9,809,139	\$534,619

The expenditures increased by \$534,619 or 5% compared to the prior year mostly due to an increase in instruction expenditures. Expenditures for instruction increased as a result of additional hiring of teachers, increases in health insurance and textbook purchases.

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

During the course of fiscal year 2005 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$10.9 million, above original budget estimates of \$10.1 million. The General Fund had an adequate fund balance to cover expenditures.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005 the District had \$4,933,070 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2004 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$743,629	\$743,629	\$0
Construction in Progress	298,977	0	298,977
Land Improvements	837,327	827,027	10,300
Buildings and Improvements	6,818,503	6,553,244	265,259
Machinery/Equipment and Furniture/Fixtures	795,476	835,841	(40,365)
Vehicles	131,966	131,966	0
Less: Accumulated Depreciation	(4,692,808)	(4,589,561)	(103,247)
Totals	\$4,933,070	\$4,502,146	\$430,924

The primary increase occurred in construction in progress, which can be attributed to elementary school roof improvements.

Additional information on the District's capital assets can be found in Note 8.

Debt

At June 30, 2005, the District had \$4.7 million in bonds outstanding, \$245,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2005:

	2005	2004
Governmental Activities:		
General Obligation Bonds:		
School Improvement	\$4,665,000	\$4,900,000
Compensated Absences	1,237,154	1,089,869
Totals	\$5,902,154	\$5,989,869

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, 2005, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

ECONOMIC FACTORS

The Ottawa Hills Local School District relies upon local property taxes and state foundation monies to fund its operations. In fiscal year 2005 the District received approximately 71.2% of its revenues from local property taxes, 16.3% from the state foundation program, 9.6% from the Homestead/Rollback exemption legislation, and the remaining 2.9% from other local sources. The District real estate value consists of 95.8% residential real estate, 3.1% commercial real estate, and 1.1% tangible personal property/public utilities personal property.

The District last passed a 5.7 mill continuing operating levy in November 2004 by a 64% 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.

The District has a 1.0 permanent improvement levy expiring in December of 2006. The District will make a determination to renew or replace the expiring 1.0 mill permanent improvement levy in the summer of 2006.

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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

This Page Intentionally Left Blank

OTTAWA HILLS LOCAL SCHOOL DISTRICT

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

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 2,764,558
Investments	4,357,473
Receivables:	
Taxes	10,821,346
Accounts	2,992
Intergovernmental	709
Interest	34,577
Prepaid Items	68,086
Capital Assets, Net	4,933,070
Total Assets	22,982,811
Liabilities:	
Accounts Payable	302,574
Accrued Wages and Benefits	737,324
Intergovernmental Payable	248,788
Deferred Revenue - Taxes	10,050,024
Accrued Interest Payable	73,863
Compensated Absences Payable	33,580
Long Term Liabilities:	
Due Within One Year	316,943
Due in More Than One Year	5,585,211
Total Liabilities	17,348,307
Net Assets:	
Invested in Capital Assets, Net of Related Debt	268,070
Restricted For:	
Capital Projects	434,985
Debt Service	749,978
Other Purposes	26,535
Unrestricted	4,154,936
Total Net Assets	\$ 5,634,504

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

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

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 7,864,755	\$ 125,396	\$ 104,830	\$ 8,925	\$ (7,625,604)
Support Services:					
Pupils	490,739	0	18,812	0	(471,927)
Instructional Staff	483,417	0	93,069	0	(390,348)
Board of Education	23,296	0	0	0	(23,296)
Administration	863,236	0	38,088	0	(825,148)
Fiscal Services	354,220	0	0	0	(354,220)
Operation and Maintenance of Plant	1,125,258	2,219	9,656	115,000	(998,383)
Pupil Transportation	45,958	1,904	0	0	(44,054)
Central	48,595	0	6,000	0	(42,595)
Community Services	361,778	0	359,683	0	(2,095)
Extracurricular Activities	538,708	461,525	0	0	(77,183)
Debt Service:					
Interest and Fiscal Charges	226,724	0	0	0	(226,724)
Total Governmental Activities	\$ 12,426,684	\$ 591,044	\$ 630,138	\$ 123,925	(11,081,577)
General Revenues					
Property Taxes Levied for:					
					7,825,091
General Purposes					430,943
Debt Service					365,589
Capital Outlay					2,950,407
Grants and Entitlements not Restricted to Specific Programs					175,881
Investment Earnings					255,036
Miscellaneous					<u>12,002,947</u>
Total General Revenues					
Change in Net Assets					921,370
Net Assets Beginning of Year					4,713,134
Net Assets End of Year					<u>\$ 5,634,504</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 1,141,326	\$ 1,623,232	\$ 2,764,558
Investments	4,357,473	0	4,357,473
Receivables:			
Taxes	9,874,470	946,876	10,821,346
Accounts	1,703	1,289	2,992
Intergovernmental	0	709	709
Interest	34,577	0	34,577
Interfund Loan Receivable	339	0	339
Prepaid Items	68,086	0	68,086
Total Assets	\$ 15,477,974	\$ 2,572,106	\$ 18,050,080
Liabilities:			
Accounts Payable	\$ 8,868	\$ 293,706	\$ 302,574
Accrued Wages and Benefits	736,804	520	737,324
Intergovernmental Payable	248,329	459	248,788
Interfund Loans Payable	0	339	339
Deferred Revenue - Taxes	9,685,100	928,374	10,613,474
Deferred Revenue	8,456	0	8,456
Compensated Absences Payable	33,580	0	33,580
Total Liabilities	10,721,137	1,223,398	11,944,535
Fund Balances:			
Reserved for Encumbrances	0	723,187	723,187
Reserved for Prepaid Items	68,086	0	68,086
Reserved for Debt Service	0	787,106	787,106
Reserved for Property Taxes	180,922	17,661	198,583
Unreserved, Undesignated in:			
General Fund	4,507,829	0	4,507,829
Special Revenue Funds	0	124,491	124,491
Capital Projects Funds (Deficit)	0	(303,737)	(303,737)
Total Fund Balances	4,756,837	1,348,708	6,105,545
Total Liabilities and Fund Balances	\$ 15,477,974	\$ 2,572,106	\$ 18,050,080

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30, 2005***

Total Governmental Fund Balances \$ 6,105,545

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 4,933,070

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 571,906

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	(4,665,000)
Compensated Absences Payable	(1,237,154)
Accrued Interest Payable	(73,863)

(5,976,017)

Net Assets of Governmental Activities

\$ 5,634,504

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 7,639,597	\$ 782,652	\$ 8,422,249
Tuition	36,144	0	36,144
Transportation Fees	1,904	0	1,904
Investment Earnings	173,050	0	173,050
Extracurricular Activities	50,296	411,229	461,525
Class Materials and Fees	46,105	43,147	89,252
Intergovernmental - State	2,839,846	509,296	3,349,142
Intergovernmental - Federal	0	240,328	240,328
All Other Revenue	3,939	247,044	250,983
Total Revenue	10,790,881	2,233,696	13,024,577
Expenditures:			
Current:			
Instruction	6,859,093	852,883	7,711,976
Supporting Services:			
Pupils	462,241	21,268	483,509
Instructional Staff	383,195	95,108	478,303
Board of Education	23,296	0	23,296
Administration	779,747	45,501	825,248
Fiscal Services	354,487	10,518	365,005
Operation & Maintenance of Plant	1,090,522	485,617	1,576,139
Pupil Transportation	42,884	0	42,884
Central	42,595	6,000	48,595
Community Services	2,000	359,778	361,778
Extracurricular Activities	303,698	212,856	516,554
Debt Service:			
Principal Retirement	0	235,000	235,000
Interest & Fiscal Charges	0	230,019	230,019
Total Expenditures	10,343,758	2,554,548	12,898,306
Excess (Deficiency) of Revenues Over Expenditures	447,123	(320,852)	126,271
Other Financing Sources (Uses):			
Transfers In	752	435,190	435,942
Transfers Out	(433,190)	(2,752)	(435,942)
Refund of P/Y Expenditures	1,089	5,183	6,272
Total Other Financing Sources (Uses)	(431,349)	437,621	6,272
Net Change in Fund Balance	15,774	116,769	132,543
Fund Balances at Beginning of Year	4,741,063	1,231,939	5,973,002
Fund Balances End of Year	\$ 4,756,837	\$ 1,348,708	\$ 6,105,545

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

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, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 132,543**

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	682,667	
Depreciation Expense	<u>(251,743)</u>	
		430,924

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 202,205

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 activities. 235,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,295

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	(147,285)	
Pension Obligation (Intergovernmental Payable)	<u>64,688</u>	
		<u>(82,597)</u>

Change in Net Assets of Governmental Activities **\$ 921,370**

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

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

	Private Purpose Trust Funds	Student Managed Activity Fund	Total
Assets:			
Cash and Cash Equivalents	\$ 57,147	\$ 52,070	\$ 109,217
Total Assets	<u>57,147</u>	<u>52,070</u>	<u>109,217</u>
Liabilities:			
Due to Students	<u>0</u>	<u>52,070</u>	<u>52,070</u>
Total Liabilities	<u>0</u>	<u>52,070</u>	<u>52,070</u>
Net Assets:			
Unrestricted	<u>57,147</u>	<u>0</u>	<u>57,147</u>
Total Net Assets	<u>\$ 57,147</u>	<u>\$ 0</u>	<u>\$ 57,147</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30,2005***

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Private Donations	\$ 3,618
Total Contributions	<u>3,618</u>
Investment Earnings:	
Interest	<u>2,102</u>
Total Investment Earnings	<u>2,102</u>
Total Additions	<u>5,720</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>4,785</u>
Total Deductions	<u>4,785</u>
Change in Net Assets	935
Net Assets at Beginning of Year	<u>56,212</u>
Net Assets End of Year	<u>\$ 57,147</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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 33 noncertified, 74 certified teaching personnel and 8 administrative employees providing education to 1,020 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 are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following is the District's only major governmental fund:

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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, 2005, and which are not intended to finance fiscal 2005 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, 2005 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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 funds and the private-purpose trust funds. 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to January 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 schedule reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2005.

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 "Schedule 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. 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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. 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 schedules for the General Fund:

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	\$15,774
Increase (Decrease):	
Accrued Revenues at June 30, 2005, received during FY 2006	(171,072)
Accrued Revenues at June 30, 2004, received during FY 2005	334,242
Accrued Expenditures at June 30, 2005, received during FY 2006	1,027,581
Accrued Expenditures at June 30, 2004, paid during FY 2005	(899,137)
FY 2004 Prepays for FY 2005	71,524
FY 2005 Prepays for FY 2006	(68,086)
Encumbrances Outstanding	(92,015)
Budget Basis	\$218,811

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, investments with original maturities of less than three months and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

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 3, "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 3, "Cash, Cash Equivalents and Investments." During fiscal year 2005, 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 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$173,050. Of that amount, \$41,194 was the amount allocated by other funds.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation

The accounting and reporting treatment applied to capital 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 and construction in progress. 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

J. 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. Net Assets

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

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

M. 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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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.

O. 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 debt service, property taxes, prepaid items, and encumbered amounts, which have not been accrued at year end.

P. 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 – COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficit at June 30, 2005 of \$247 in the Class Size Reduction Grant Fund (special revenue fund) arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The deficit does not exist under the budgetary/cash basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

Excess Appropriations over Estimated Revenues - Ohio Revised Code requires that appropriations do not exceed estimated revenues. Appropriations exceeded estimated revenues by \$1,122 in the Title VI-B Fund, \$236 in the Title VI Fund, \$769 in the Summer Intervention Fund, \$48,614 in the Public School Grant Fund (special revenue funds), and \$151,261 in the Permanent Improvement Fund (capital projects fund). Under the cash basis of accounting, expenditures did not exceed revenues.

Excess of Expenditures over Appropriations - For the year ended June 30, 2005, expenditures exceeded appropriations at the object level (i.e., the legal level of budgetary control) as follows:

<u>Fund</u>	<u>Excess</u>
Student Activities Fund	\$7,907
Permanent Improvement Fund	29,270

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 3 - 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:

- 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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. 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. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$2,969,179 and the bank balance was \$3,316,181. Federal depository insurance covered \$100,000 of the bank balance and \$3,216,181 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$3,216,181</u>
Total Balance	<u><u>\$3,216,181</u></u>

This space intentionally left blank.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The District's investments at June 30, 2005 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$104,596	AAA ^{m 1}	\$104,596	\$0	\$0
FNMA	1,476,875	AAA ^{1,2}	0	1,476,875 ^a	0
FHLB	2,432,403	AAA ^{1,2}	1,738,360 ^b	247,033	447,010
FHLM	248,195	AAA ^{1,2}	248,195 ^c	0	0
Total Investments	<u>\$4,262,069</u>		<u>\$2,091,151</u>	<u>\$1,723,908</u>	<u>\$447,010</u>

¹ Standard & Poor's

² Moody's Investor Service

^a Call Option – Callable quarterly beginning May 2004 and thereafter.

^b Call Option – Callable quarterly beginning January 2004 and thereafter.

^c Call Option – Callable quarterly beginning July 2004 and thereafter.

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer. Of the District's total investments, 34.7% are FNMA, 57.1% are FHLB, 5.8% are FHLM, and 2.4% are STAR Ohio.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the 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.

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$2,873,775	\$4,357,473
Certificates of Deposit (with maturities of more than 3 months)	200,000	(200,000)
STAR Ohio	(104,596)	104,596
Per GASB Statement No. 3	<u>\$2,969,179</u>	<u>\$4,262,069</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 4 - 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 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, 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 2001. 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.

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 2005, upon which the 2004 levies were based, were as follows:

	2004 Second Half Collections	2005 First Half Collections
Agricultural/Residential and Other Real Estate	\$174,584,340	\$175,021,810
Public Utility Personal	1,923,510	1,856,320
Tangible Personal Property	359,416	207,580
Total Assessed Value	<u>\$176,867,266</u>	<u>\$177,085,710</u>
Tax rate per \$1,000 of assessed valuation	\$114.65	\$120.35

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005 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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 6 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2005:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$339	\$0
Other Governmental Funds	0	339
Totals	<u>\$339</u>	<u>\$339</u>

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2005:

Fund	Transfer In	Transfer Out
General Fund	\$752	\$433,190
Other Governmental Funds	435,190	2,752
Total All Funds	<u>\$435,942</u>	<u>\$435,942</u>

This space intentionally left blank.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2005:

Historical Cost:

Class	June 30, 2004	Additions	Deletions	June 30, 2005
<i>Capital assets not being depreciated:</i>				
Land	\$743,629	\$0	\$0	\$743,629
Construction in Progress	0	298,977	0	298,977
<i>Capital assets being depreciated:</i>				
Land Improvements	827,027	10,300	0	837,327
Buildings and Improvement	6,553,244	265,259	0	6,818,503
Machinery/Equipment and Furniture/Fixtures	835,841	108,131	(148,496)	795,476
Vehicles	131,966	0	0	131,966
Total Cost	\$9,091,707	\$682,667	(\$148,496)	\$9,625,878

Accumulated Depreciation:

Class	June 30, 2004	Additions	Deletions	June 30, 2005
Land Improvements	(\$416,311)	(\$34,667)	\$0	(\$450,978)
Buildings and Improvement	(3,178,350)	(158,288)	0	(3,336,638)
Machinery/Equipment and Furniture/Fixtures	(925,611)	(51,310)	148,496	(828,425)
Vehicles	(69,289)	(7,478)	0	(76,767)
Total Depreciation	(\$4,589,561)	(\$251,743) *	\$148,496	(\$4,692,808)
Net Value:	\$4,502,146			\$4,933,070

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$198,083
Support Services:	
Pupils	442
Instructional Staff	3,549
Administration	2,700
Fiscal Services	1,328
Operations & Maintenance of Plant	14,834
Pupil Transportation	4,748
Extracurricular Activities	26,059
Total Depreciation Expense	\$251,743

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - 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 publicly available, 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 10% 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, 2005, 10.57% was allocated to fund the pension benefit and 3.43% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$169,188, \$155,436, and \$147,720, respectively. 72.57% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$46,409 represents the unpaid contributions for fiscal year 2005.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. The portion of the 2005 employer contribution rate that was used to fund health care for the year 2005 was 3.43%. 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 2005, the minimum pay has been established as \$27,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$65,724.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 58,123. The target level for the health care reserve is 150% of annual health care expenses before premium deduction. Expenses for health care at June 30, 2005 were \$178,221,113 and the target level was \$267.3 million. Net assets available for payment of benefits at June 30, 2005 were \$267.5 million.

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 or by visiting the STRS Ohio Web site at www.strsoh.org.

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. 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.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, 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, 2005, 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, 2005, 2004, and 2003 were \$706,956, \$693,852, and \$679,843, respectively. 83.33% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$117,826 represents the unpaid contribution for fiscal year 2005.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans 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. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2005, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$50,497 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

NOTE 10 - 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, 2005 are as follows:

			Balance			Balance	Amount Due
			June 30, 2004	Additions	Deductions	June 30, 2005	Within One Year
Governmental Activities:							
General Obligation Bonds:							
1998	School Improvement	4.75%	\$4,900,000	\$0	(\$235,000)	\$4,665,000	\$245,000
	Compensated Absences		1,089,869	1,237,154	(1,089,869)	1,237,154	71,943
Total Long-Term Obligations			\$5,989,869	\$1,237,154	(\$1,324,869)	\$5,902,154	\$316,943

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 10 - 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, 2005, follows:

Years	General Obligation Bonds	
	Principal	Interest
2006	\$245,000	\$218,738
2007	265,000	206,863
2008	280,000	194,038
2009	295,000	180,619
2010	315,000	166,369
2011-2015	1,875,000	584,845
2016-2018	1,390,000	118,394
Totals	\$4,665,000	\$1,669,866

NOTE 11 - 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, 2005, the reserve activity (cash-basis) was as follows:

	Textbook	Capital	Total
	Reserve	Acquisition Reserve	
Set-aside Cash Balance as of June 30, 2004	(\$354,511)	\$0	(\$354,511)
Current Year Set-Aside Requirement	148,810	148,810	297,620
Current Year Offset Credits	(262,542)	(452,649)	(715,191)
Total	(\$468,243)	(\$303,839)	(\$772,082)
Cash Balance Carried Forward to FY 2006	(\$468,243)	\$0	(\$468,243)

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 12 - CONSTRUCTION COMMITMENTS

As of June 30, 2005, the District had the following commitment with respect to capital projects:

<u>Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Elementary School Roof Replacement	<u>\$707,000</u>	August 2005
Total	<u><u>\$707,000</u></u>	

NOTE 13 - 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, Archbold, 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 \$65,830. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 14 - 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 2005 the District contracted with several different insurance providers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Indiana Insurance Company	Commercial Property	\$1,000
Indiana Insurance Company	Commercial Crime	\$500
Indiana Insurance Company	Commercial Articles	\$500
Indiana Insurance Company	Commercial Computer	\$1,000
Indiana Insurance Company	Contractor's Equipment	\$500
Indiana Insurance Company	Employee Benefits	\$1,000
Indiana Insurance Company	School Leaders Errors and Omissions	\$2,500
Indiana Insurance Company	Commercial Auto – Trucks	
	Comprehensive	\$250
	Collision	\$500
Indiana Insurance Company	Commercial Auto – Bus	
	Comprehensive	\$500
	Collision	\$1,000
Indiana Insurance Company	Umbrella Coverage	\$10,000

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 15 - 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, 2005.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 15 – CONTINGENCIES (Continued)

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.

NOTE 16 – 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. In addition, the District entered into an operating lease in fiscal 2004 with Perry Corporation for the use of nine copiers for a period of five years. There is no minimum monthly payment because the cost is calculated based on usage. Lease expense amounted to \$45,581 for the fiscal year 2005.

The following is a schedule of future minimum payments under the operating lease as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	
2006	\$31,000
2007	31,000
2008	31,000
2009	31,000
2010	31,000
2011 - Thereafter	<u>186,000</u>
Total Minimum Lease Payments	<u>\$ 341,000</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

OTTAWA HILLS LOCAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 7,197,425	\$ 7,801,572	\$ 7,801,571	\$ (1)
Tuition	8,000	36,144	36,144	0
Transportation Fees	2,700	1,904	1,904	0
Investment Earnings	85,000	164,138	174,115	9,977
Extracurricular Activities	53,970	50,296	50,296	0
Class Material and Fees	33,550	46,208	46,510	302
Intergovernmental - State	2,745,606	2,839,835	2,839,846	11
All Other Revenues	8,152	4,850	4,850	0
Total Revenues	<u>10,134,403</u>	<u>10,944,947</u>	<u>10,955,236</u>	<u>10,289</u>
Expenditures:				
Current:				
Instruction	7,001,304	7,068,805	6,802,798	266,007
Support Services:				
Pupils	493,159	478,245	453,981	24,264
Instructional Staff	390,539	392,018	381,450	10,568
Board of Education	39,500	27,000	20,359	6,641
Administration	892,289	842,243	775,966	66,277
Fiscal Services	368,130	376,366	346,425	29,941
Operation and Maintenance of Plant	1,186,727	1,208,172	1,134,837	73,335
Pupil Transportation	58,185	53,697	42,883	10,814
Central	72,000	72,070	42,775	29,295
Community Services	2,000	2,000	2,000	0
Extracurricular Activities	324,573	310,194	301,602	8,592
Total Expenditures	<u>10,828,406</u>	<u>10,830,810</u>	<u>10,305,076</u>	<u>525,734</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(694,003)	114,137	650,160	536,023
Other Financing Sources (Uses):				
Transfers In	0	752	752	0
Transfers Out	(124,938)	(434,938)	(433,190)	1,748
Advances Out	(30,000)	(10,000)	0	10,000
Refund of Prior Year's Expenditures	0	1,089	1,089	0
Refund of Prior Year's Receipts	(500)	(500)	0	500
Total Other Financing Sources (Uses):	<u>(155,438)</u>	<u>(443,597)</u>	<u>(431,349)</u>	<u>12,248</u>
Net Change in Fund Balance	(849,441)	(329,460)	218,811	548,271
Fund Balance at Beginning of Year	5,214,893	5,214,893	5,214,893	0
Prior Year Encumbrances	19,541	19,541	19,541	0
Fund Balance at End of Year	<u>\$ 4,384,993</u>	<u>\$ 4,904,974</u>	<u>\$ 5,453,245</u>	<u>\$ 548,271</u>

See accompanying notes to the basic financial statements

LublinSussman Group LLP
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining funds information of Ottawa Hills Local School District, Lucas County, Ohio, (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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

www.lublinsussman.com

Douglas J. Welch, CPA, CVA
Lee D. Wunschel, CPA
Thomas J. Jaffee, JD, CPA
Terri S. Lee, CPA

Branch Office
621 Croghan Street
Fremont, Ohio 43420
(419) 332-1513

Members:
American Institute of Certified Public Accountants
AICPA-Private Companies Practice Section
Ohio Society of Certified Public Accountants

Ottawa Hills Local School District
Lucas County
Report on Compliance and Internal Control

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 2005-004 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings as items 2005-001 thru 2005-004.

We also noted certain additional matters that we reported to management of the School District in a separate letter dated March 22, 2006.

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.

Lublin Sussman Group LLP

March 22, 2006
Toledo, Ohio

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

Schedule of Findings
Fiscal Year Ended June 30, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2005-001

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). 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 2005. 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 organization on or before December 31 of each year.

FINDING NUMBER 2005-002

Ohio revised Code Section 5705.41(B) prohibits a subdivision from making any expenditure of money unless it has been appropriated as provided in such chapter. At June 30, 2005, the following is an instance in which expenditures exceeded appropriations in the following funds at the legal level of control:

Fund	Appropriations	Expenditures	Variance
Permanent Imp.	1,131,079	1,160,349	(29,270)
Activities	15,442	23,349	(7,907)

Management was advised that failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures exceeding 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 2005-003

Ohio Revised Code Section 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.

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

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

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

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

Ottawa Hills Local School District
Lucas County
Schedule of Findings

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

For nine percent of the expenditures tested, prior certification was not obtained nor was a then and now certificate utilized. 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 \$3,000. 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 2005-004

Material Weakness – Fixed Asset Controls

The School District has not adopted a proper fixed asset policy for the identification and capitalization of building improvements. In addition, the School District has not properly implemented procedures to assist in identifying building and building improvements purchased throughout the year. Failure to employ adequate controls over the recording of buildings and building improvements could result in the material misstatement of recorded assets.

To reduce the risk that the School District’s assets will be misstated, we recommend the adoption of a proper fixed asset policy and implementation of procedures for identifying and recording building and building improvements as fixed assets, rather than recording them as an expense in the year of purchase.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Prior Audit Findings
Fiscal Year Ended June 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	17 CFR Section 240.15c2-12, filing of annual report with NRMSIRS	No	Not Corrected. Citation reissued as finding 2005-001.
2004-002	Revised Code § 5705.41(B), expenditures exceeding appropriations	No	Not Corrected. Citation reissued as finding number 2005-002.
2004-003	Revised Code § 5705.41(D), prior certification by Treasurer	No	Not Corrected. Citation reissued as finding number 2005-003.
2004-004	Material Weakness – Fixed Asset Controls	No	Not Corrected. Citation reissued as finding number 2005-004.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JUNE 27, 2006**