

**LAKOTA LOCAL
SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**
*BASIC FINANCIAL STATEMENTS
(AUDITED)*

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2005*



**Auditor of State
Betty Montgomery**

Board of Education
Lakota Local School District
356 Union Street, P.O. Box 5
Risingsun, Ohio 43457

We have reviewed the *Independent Auditor's Report* of the Lakota Local School District, Sandusky County, prepared by Julian and Grube, Inc., 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 Lakota Local School District is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

March 20, 2006

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**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Lakota Local School District
365 Union Street
Risingsun, Ohio 43457-0005

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lakota Local School District, Sandusky County, (the "District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, its major fund, and the aggregate remaining fund information of the Lakota Local School District, Sandusky County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2006, on our consideration of the District's internal control over financial reporting and on 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 assessing the results of our audit.

Independent Auditor's Report
Lakota Local School District
Page Two

The management discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lakota Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Lakota Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 16, 2006

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

The management's discussion and analysis of the Lakota Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the 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:

- In total, net assets of governmental activities decreased \$240,630 which represents a 14.01% decrease from 2004.
- General revenues accounted for \$9,056,014 in revenue or 87.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,312,828 or 12.66% of total revenues of \$10,368,842.
- The District had \$10,609,472 in expenses related to governmental activities; \$1,312,828 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,056,014 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$9,006,048 in revenues and other financing sources and \$9,262,285 in expenditures. During fiscal year 2005, the general fund's restated fund balance decreased \$256,237 from a restated balance of \$841,639 to \$585,402.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-49 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 4,830,370	\$ 5,126,009
Capital assets, net	<u>2,272,128</u>	<u>2,371,401</u>
Total assets	<u>7,102,498</u>	<u>7,497,410</u>
<u>Liabilities</u>		
Current liabilities	3,595,521	3,572,824
Long-term liabilities	<u>747,281</u>	<u>924,260</u>
Total liabilities	<u>4,342,802</u>	<u>4,497,084</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,122,996	2,128,673
Restricted	666,162	473,097
Unrestricted	<u>(29,462)</u>	<u>398,556</u>
Total net assets	<u>\$ 2,759,696</u>	<u>\$ 3,000,326</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$2,759,696.

At fiscal year-end, capital assets represented 32% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$2,122,996. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

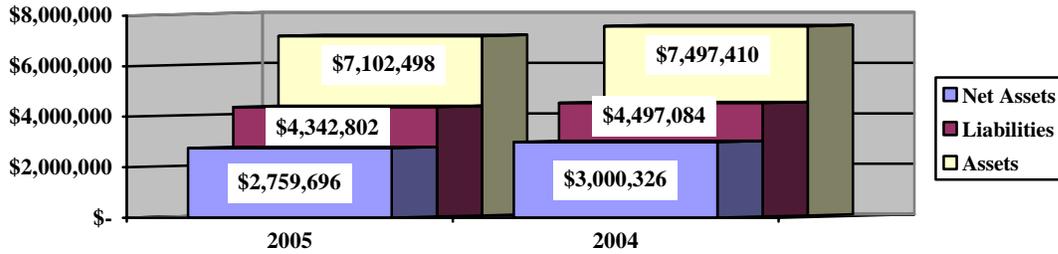
**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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A portion of the District's net assets, \$666,162, represents resources that are subject to external restriction on how they may be used. The remaining is a deficit of unrestricted net assets of \$29,462.

The table below illustrates the District's assets, liabilities and net assets at June 30, 2005 and 2004.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 290,892	\$ 318,051
Operating grants and contributions	1,021,936	985,987
Capital grants and contributions	-	219,732
General revenues:		
Property taxes	3,247,089	2,749,475
Grants and entitlements	5,664,871	5,598,659
Investment earnings	41,395	28,132
Other	102,659	149,041
Total revenues	<u>10,368,842</u>	<u>10,049,077</u>

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,945,160	\$ 3,863,338
Special	1,627,554	1,515,629
Vocational	13,155	12,070
Other	873,381	892,468
Support services:		
Pupil	340,156	480,221
Instructional staff	206,421	214,324
Board of education	17,042	7,061
Administration	745,124	718,379
Fiscal	147,365	140,914
Business	247,800	197,947
Operations and maintenance	741,898	676,855
Pupil transportation	768,960	763,562
Central	41,172	49,624
Operations of non-instructional service	24,927	23,747
Extracurricular activities	353,108	251,465
Food service operations	505,541	497,297
Interest and fiscal charges	<u>10,708</u>	<u>13,280</u>
Total expenses	<u>10,609,472</u>	<u>10,318,181</u>
Change in net assets	(240,630)	(269,104)
Net assets at beginning of year	<u>3,000,326</u>	<u>3,269,430</u>
Net assets at end of year	<u>\$ 2,759,696</u>	<u>\$ 3,000,326</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$240,630. Total governmental expenses of \$10,609,472 were offset by program revenues of \$1,312,828 and general revenues of \$9,056,014. Program revenues supported \$1,312,828 of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 85.95% of total governmental revenue.

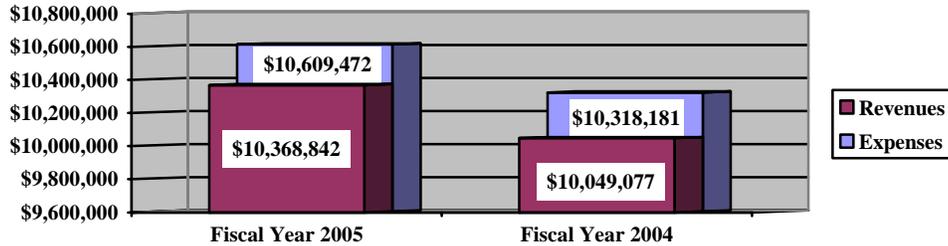
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,459,250 or 60.88% of total governmental expenses for fiscal 2005.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,945,160	\$ 3,812,155	\$ 3,863,338	\$ 3,707,805
Special	1,627,554	1,044,345	1,515,629	1,023,862
Vocational	13,155	13,155	12,070	12,070
Other	873,381	873,381	892,468	892,468
Support services:				
Pupil	340,156	292,948	480,221	425,199
Instructional staff	206,421	206,421	214,324	214,324
Board of education	17,042	17,042	7,061	7,061
Administration	745,124	705,380	718,379	653,030
Fiscal	147,365	147,365	140,914	140,914
Business	247,800	247,800	197,947	197,947
Operations and maintenance	741,898	741,898	676,855	676,462
Pupil transportation	768,960	756,384	763,562	756,150
Central	41,172	41,172	49,624	49,624
Operations of non-instructional services	24,927	427	23,747	(1,092)
Extracurricular activities	353,108	277,506	251,465	(55,184)
Food service operations	505,541	108,557	497,297	80,491
Interest and fiscal charges	10,708	10,708	13,280	13,280
Total expenses	<u>\$ 10,609,472</u>	<u>\$ 9,296,644</u>	<u>\$ 10,318,181</u>	<u>\$ 8,794,411</u>

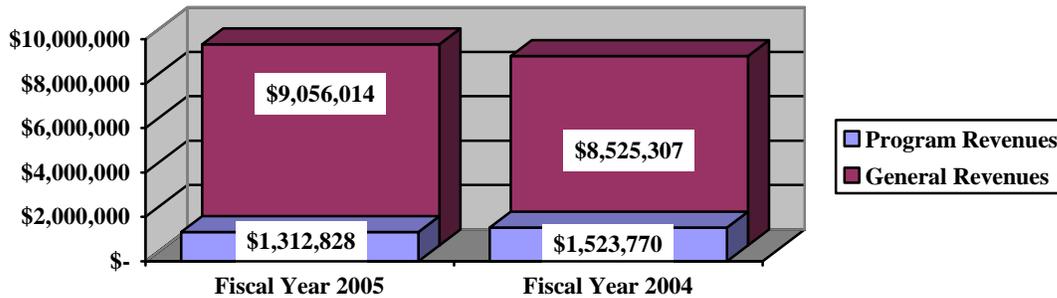
**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 63.42% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.66%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$931,363, which is lower than last year's restated balance of \$1,223,996. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 585,402	\$ 841,639	\$ (256,237)	(30.45) %
Other Governmental	345,961	382,357	(36,396)	(9.52) %
Total	<u>\$ 931,363</u>	<u>\$ 1,223,996</u>	<u>\$ (292,633)</u>	(23.91) %

General Fund

The District's general fund balance decreased \$256,237. The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 3,238,303	\$ 2,830,381	\$ 407,922	14.41 %
Earnings on investments	39,975	26,148	13,827	52.88 %
Intergovernmental	5,664,871	5,598,659	66,212	1.18 %
Other revenues	<u>62,899</u>	<u>114,825</u>	<u>(51,926)</u>	(45.22) %
Total	<u>\$ 9,006,048</u>	<u>\$ 8,570,013</u>	<u>\$ 436,035</u>	5.09 %
<u>Expenditures</u>				
Instruction	\$ 5,925,373	\$ 5,703,704	\$ 221,669	3.89 %
Support services	3,071,089	3,070,400	689	0.02 %
Extracurricular activities	161,519	119,893	41,626	34.72 %
Facilities acquisition and construction	-	226,028	(226,028)	(100.00) %
Capital outlay	-	218,901	(218,901)	(100.00) %
Debt service	<u>104,304</u>	<u>84,869</u>	<u>19,435</u>	22.90 %
Total	<u>\$ 9,262,285</u>	<u>\$ 9,423,795</u>	<u>\$ (161,510)</u>	(1.71) %

Extracurricular activities expenditures increased 34.72% while there were no facilities acquisition and construction and capital outlay expenditures during fiscal year 2005. Debt service increased due to the capital leases being paid from the general fund of the District. All other expenditures remained comparable to 2004.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,637,740 and final budgeted revenues and other financing sources were also \$9,637,740. Actual revenues and other financing sources for fiscal 2005 was \$8,707,302. This represents a \$930,438 decrease over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$10,601,000 were increased to \$10,697,313 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$9,591,530, which was \$1,105,783 less than the final budget appropriations.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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 2005, the District had \$2,272,128 invested in land, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 450,809	\$ 450,809
Building and improvements	1,004,149	1,065,939
Furniture and equipment	323,314	357,503
Vehicles	493,856	497,150
Total	\$ 2,272,128	\$ 2,371,401

The overall decrease in capital assets of \$99,273 is due to depreciation of \$252,069 exceeding capital outlays of \$152,796 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$149,132 in capital lease obligations outstanding. Of this total, \$98,337 is due within one year and \$50,795 is due in greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
Capital lease obligations	\$ 149,132	\$ 242,728
Total	\$ 149,132	\$ 242,728

At June 30, 2005, the District's overall legal debt margin was \$10,407,811, and an unvoted debt margin of \$107,813.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

Current Financial Related Activities

In March 2004, the voters of the Lakota Local School District voted in favor of a one percent income tax levy for the school district. This income tax is estimated to generate 1,065,000 dollars for the operation of the school district annually. Due to the passage of the income tax, the Lakota Board of Education will not seek to re-new the 5 mil emergency property tax that is due to expire at the end of 2006. This levy generated approximately 500,000 dollars annually for the school district.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Pamela Barber, Treasurer, Lakota Local School District, 356 Union Street, P.O. Box 5, Risingsun, Ohio 43457.

**BASIC
FINANCIAL STATEMENTS**

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,177,036
Receivables:	
Taxes	3,433,250
Accounts	1,565
Intergovernmental	180,802
Prepayments	33,309
Materials and supplies inventory	4,408
Capital assets:	
Land	450,809
Depreciable capital assets, net	1,821,319
Capital assets, net	2,272,128
 Total assets	 7,102,498
Liabilities:	
Accounts payable	76,911
Accrued wages and benefits	876,233
Pension obligation payable	214,456
Intergovernmental payable	29,779
Deferred revenue	2,385,363
Claims payable	12,779
Long-term liabilities:	
Due within one year.	119,115
Due in more than one year	628,166
 Total liabilities	 4,342,802
Net Assets:	
Invested in capital assets, net of related debt.	2,122,996
Restricted for:	
Capital projects	4,363
Locally funded programs.	29,975
State funded programs	69,016
Federally funded programs.	423,946
Other purposes	138,862
Unrestricted.	(29,462)
 Total net assets	 \$ 2,759,696

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,945,160	\$ -	\$ 133,005	\$ (3,812,155)
Special	1,627,554	-	583,209	(1,044,345)
Vocational	13,155	-	-	(13,155)
Other	873,381	-	-	(873,381)
Support services:				
Pupil	340,156	-	47,208	(292,948)
Instructional staff	206,421	-	-	(206,421)
Board of education	17,042	-	-	(17,042)
Administration	745,124	-	39,744	(705,380)
Fiscal	147,365	-	-	(147,365)
Business	247,800	-	-	(247,800)
Operations and maintenance	741,898	-	-	(741,898)
Pupil transportation	768,960	-	12,576	(756,384)
Central	41,172	-	-	(41,172)
Operation of non-instructional				
services	24,927	-	24,500	(427)
Extracurricular activities	353,108	75,602	-	(277,506)
Food service operations	505,541	215,290	181,694	(108,557)
Interest and fiscal charges	10,708	-	-	(10,708)
Total governmental activities	\$ 10,609,472	\$ 290,892	\$ 1,021,936	(9,296,644)

General Revenues:

Property and income taxes levied for:	
General purposes	3,247,089
Grants and entitlements not restricted	
to specific programs	5,664,871
Investment earnings	41,395
Miscellaneous	102,659
Total general revenues	9,056,014
Change in net assets	(240,630)
Net assets at beginning of year	3,000,326
Net assets at end of year	\$ 2,759,696

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 537,983	\$ 500,191	\$ 1,038,174
Receivables:			
Taxes	3,433,250	-	3,433,250
Accounts	87	1,174	1,261
Intergovernmental	-	180,802	180,802
Due from other funds	164,661	-	164,661
Prepayments	33,309	-	33,309
Materials and supplies inventory	2,818	1,590	4,408
Restricted assets:			
Equity in pooled cash and cash equivalents	<u>138,862</u>	<u>-</u>	<u>138,862</u>
Total assets	<u>\$ 4,310,970</u>	<u>\$ 683,757</u>	<u>\$ 4,994,727</u>
Liabilities:			
Accounts payable	\$ 66,194	\$ 10,717	\$ 76,911
Accrued wages and benefits	845,391	23,702	869,093
Compensated absences payable	1,403	-	1,403
Pension obligation payable	136,185	78,271	214,456
Intergovernmental payable	28,589	1,190	29,779
Due to other funds	-	154,248	154,248
Deferred revenue	<u>2,647,806</u>	<u>69,668</u>	<u>2,717,474</u>
Total liabilities	<u>3,725,568</u>	<u>337,796</u>	<u>4,063,364</u>
Fund Balances:			
Reserved for encumbrances	268,580	33,920	302,500
Reserved for materials and supplies inventory	2,818	1,590	4,408
Reserved for prepayments	33,309	-	33,309
Reserved for property tax unavailable for appropriation	426,280	-	426,280
Reserved for bureau of workmans comp refund	47,190	-	47,190
Reserved for textbooks	91,672	-	91,672
Unreserved, undesignated (deficit), reported in:			
General fund	(284,447)	-	(284,447)
Special revenue funds	-	331,673	331,673
Capital projects funds	<u>-</u>	<u>(21,222)</u>	<u>(21,222)</u>
Total fund balances	<u>585,402</u>	<u>345,961</u>	<u>931,363</u>
Total liabilities and fund balances	<u>\$ 4,310,970</u>	<u>\$ 683,757</u>	<u>\$ 4,994,727</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	931,363
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,272,128
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	262,443	
Intergovernmental revenue		69,668	
Total			332,111
An internal service fund is used by management to charge the costs of dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			(30,028)
Long-term liabilities, including capital lease obligation, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		596,746	
Capital lease obligation		149,132	
Total			(745,878)
Net assets of governmental activities		\$	2,759,696

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,238,303	\$ -	\$ 3,238,303
Earnings on investments	39,975	1,420	41,395
Charges for services	-	215,290	215,290
Extracurricular	-	75,602	75,602
Other local revenues	62,899	39,760	102,659
Intergovernmental - intermediate	49,144	-	49,144
Intergovernmental - state	5,615,727	87,720	5,703,447
Intergovernmental - federal	-	894,755	894,755
Total revenues	<u>9,006,048</u>	<u>1,314,547</u>	<u>10,320,595</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,836,564	97,005	3,933,569
Special	1,207,779	418,483	1,626,262
Vocational	13,155	-	13,155
Other	867,875	-	867,875
Support services:			
Pupil	288,855	40,319	329,174
Instructional staff	204,151	1	204,152
Board of education	17,042	-	17,042
Administration	680,893	52,791	733,684
Fiscal	147,980	-	147,980
Business	215,006	-	215,006
Operations and maintenance	732,406	35,871	768,277
Pupil transportation	743,584	10,741	754,325
Central	41,172	-	41,172
Operation of non-instructional services	-	24,927	24,927
Extracurricular activities	161,519	169,614	331,133
Food service operations	-	501,191	501,191
Debt service:			
Principal retirement	93,596	-	93,596
Interest and fiscal charges	10,708	-	10,708
Total expenditures	<u>9,262,285</u>	<u>1,350,943</u>	<u>10,613,228</u>
Net change in fund balances	(256,237)	(36,396)	(292,633)
Fund balances at beginning of year (restated)	<u>841,639</u>	<u>382,357</u>	<u>1,223,996</u>
Fund balances at end of year	<u>\$ 585,402</u>	<u>\$ 345,961</u>	<u>\$ 931,363</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (292,633)

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. Depreciation expense exceeds capital outlays in the current period accordingly.

Capital asset additions	\$	152,796	
Current year depreciation		<u>(252,069)</u>	(99,273)

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

Delinquent property taxes		8,786	
Intergovernmental		<u>39,461</u>	48,247

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 93,596

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 39,340

The internal service fund used by management to charge the costs of dental insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (29,907)

Change in net assets of governmental activities \$ (240,630)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,253,766	\$ 3,253,766	\$ 2,939,644	\$ (314,122)
Earnings on investments.	44,247	44,247	39,975	(4,272)
Other local revenues	69,524	69,524	62,812	(6,712)
Intergovernmental - intermediate	54,395	54,395	49,144	(5,251)
Intergovernmental - state	6,215,808	6,215,808	5,615,727	(600,081)
Total revenues	9,637,740	9,637,740	8,707,302	(930,438)
Expenditures:				
Current:				
Instruction:				
Regular	3,945,520	3,981,368	3,944,089	37,279
Special.	1,308,634	1,320,523	1,206,231	114,292
Vocational.	13,038	13,156	13,506	(350)
Other.	855,329	863,100	868,940	(5,840)
Support services:				
Pupil.	362,648	365,943	312,584	53,359
Instructional staff	553,105	558,130	210,601	347,529
Board of education	423,745	427,595	206,142	221,453
Administration.	628,654	634,365	693,978	(59,613)
Fiscal	155,141	156,550	149,074	7,476
Business	292,044	294,697	228,750	65,947
Operations and maintenance.	1,009,103	1,018,271	775,483	242,788
Pupil transportation	820,669	828,125	756,680	71,445
Central.	49,550	50,000	44,072	5,928
Extracurricular activities.	178,865	180,490	181,400	(910)
Facilities acquisition and construction.	4,955	5,000	-	5,000
Total expenditures	10,601,000	10,697,313	9,591,530	1,105,783
Excess of revenues over (under) expenditures.	(963,260)	(1,059,573)	(884,228)	175,345
Other financing sources:				
Refund of prior year expenditure.	65	65	65	-
Total other financing sources	65	65	65	-
Net change in fund balance	(963,195)	(1,059,508)	(884,163)	175,345
Fund balance at beginning of year	1,160,523	1,160,523	1,160,523	-
Prior year encumbrances appropriated	271,632	271,632	271,632	-
Fund balance at end of year	\$ 468,960	\$ 372,647	\$ 547,992	\$ 175,345

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Receivables:	
Accounts	\$ 304
Total current assets	<u>304</u>
 Total assets	 <u>304</u>
Liabilities:	
Current liabilities:	
Accounts payable	7,140
Due to other funds	10,413
Claims payable	<u>12,779</u>
Total current liabilities	<u>30,332</u>
 Total liabilities	 <u>30,332</u>
Net assets:	
Unrestricted (deficit)	<u>(30,028)</u>
 Total net assets (deficit)	 <u>\$ (30,028)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (DEFICIT)
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services	\$ 72,807
Total operating revenues	<u>72,807</u>
Operating expenses:	
Purchased services.	13,685
Claims expense.	<u>89,029</u>
Total operating expenses	<u>102,714</u>
Operating loss/change in net assets.	(29,907)
Net assets (deficit) at beginning of year	<u>(121)</u>
Net assets (deficit) at end of year	<u><u>\$ (30,028)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 72,503
Cash received from other funds	10,413
Cash payments for purchased services.	(6,545)
Cash payments for claims	(81,967)
	(5,596)
Net cash used in operating activities	(5,596)
Cash and cash equivalents at beginning of year . . .	5,596
Cash and cash equivalents at end of year.	\$ -
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (29,907)
Changes in assets and liabilities:	
Decrease in accounts receivable	(304)
Increase in accounts payable	7,140
Increase in due to other funds	10,413
Increase in claims payable.	7,062
	7,062
Net cash used in operating activities	\$ (5,596)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 17,647	\$ 33,193
Receivables:		
Accounts	-	478
Total assets.	17,647	\$ 33,671
Liabilities:		
Accounts payable.	-	\$ 531
Due to students	-	33,140
Total liabilities	-	\$ 33,671
Net Assets:		
Held in trust for scholarships	17,647	
Total net assets	\$ 17,647	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 191
Gifts and contributions.	405
	596
Total additions.	596
Deductions:	
Scholarships awarded	1,749
	(1,153)
Change in net assets	(1,153)
Net assets at beginning of year	18,800
Net assets at end of year.	\$ 17,647

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Lakota Local School District (the "District") is located in Wood, Seneca, and Sandusky Counties, and includes all of the Village of Risingsun and portions of Liberty and Orange Townships. The District serves an area of approximately 146 square miles.

The District was established in 1959 through the consolidation of existing land areas and Districts and is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District ranks as the 467th largest by enrollment among the 614 public school districts in Ohio and the third largest in Sandusky County. It is staffed by 75 non-certificated employees and 95 certificated full-time teaching personnel, who provide services to 1,095 students and other community members. The District currently operates 5 instructional buildings and 1 garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of public Districts within the boundaries of Erie, Huron, Ottawa, Sandusky, and Seneca Counties and Cities of Fremont, Huron, Sandusky, Norwalk, Bellevue, Port Clinton, Fostoria, and Tiffin. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member Districts. The superintendent of each district is on the Board of Trustees. Financial information is available from Betty Schwiefert, who serves as controller, at 2900 Columbus Avenue, Sandusky, Ohio 44870.

Vanguard-Sentinel Career Center

The Vanguard-Sentinel Career Center is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction of a Board of Education, which consists of one representative from each of the Career Center's participating district's elected board. The Career Center possesses its own budgeting and taxing authority. Financial information is available from the Jay Valasek, Treasurer, at 1306 Cedar Street, Fremont, Ohio 43420.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation plan as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 11.B. for further information on this group rating plan.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (c) for grants and other resources whose use is restricted to a particular purpose; and (d) food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides dental benefits to employees.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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 operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (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, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service fund includes the cost of claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income 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 (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except Agency funds). The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Sandusky County Budget Commission for tax rate determination. The Sandusky County Commissioners waived this requirement for fiscal year 2005.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District has invested funds in STAR Ohio during fiscal 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the private-purpose trust funds. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$39,975, which includes \$9,594 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

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

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets related to governmental activities. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

**LAKOTA LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “due from/due to other funds.” These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property tax revenue unavailable for appropriation, BWC refunds, and textbooks. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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.

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. Estimates

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

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and BWC refunds. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

R. Interfund Activity

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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund balance June 30, 2004	\$ 891,991	\$ 423,282	\$ 1,315,273
GASB Technical Bulletin No. 2004-2	(50,352)	(40,925)	(91,277)
Restated fund balance, June 30, 2004	\$ 841,639	\$ 382,357	\$ 1,223,996

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE- (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
District Managed Student Activity	\$ 102,883
Auxiliary Services	8,077
Management Information System	2,853
Student Intervention	20,251
School Net	25,585
School Improvement	308

The School Improvement fund complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The District Managed Student Activity, Auxiliary Services, Management Information System, Student Intervention, SchoolNet, and Internal Service had cash basis deficits at year end in noncompliance with ORC Section 5705.10.

C. Noncompliance

In noncompliance with Ohio Revised Code Section 5705.39, the following funds had appropriations in excess of estimated resources for the year ended June 30, 2005:

<u>Fund Type</u>	<u>Fund</u>	<u>Excess</u>
Special Revenue	OneNet	\$ 5,000
Special Revenue	SchoolNet	15,000
Special Revenue	Technology Operations	7,897
Special Revenue	Targeted Assistance, Title I	17,571
Special Revenue	District Managed Student Activities	29,963
Internal Service	Self-Insurance	21,902

In noncompliance with Ohio Revised Code Section 5705.41 (B), the following funds had expenditures in excess of appropriations for the year ended June 30, 2005:

<u>Fund Type</u>	<u>Fund</u>	<u>Excess</u>
Special Revenue	District Managed Student Activities	\$ 78,664
Special Revenue	Auxiliary Services	926
Special Revenue	Ohio Reads	1,016
Special Revenue	Technology Operations	11,278
Special Revenue	Title II-D	1,353
Special Revenue	Food Service	8,156

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year-end, the District had \$2,000 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,448, exclusive of \$254,717 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, the District's bank balance of \$20,481 was covered by Federal Deposit Insurance Corporation.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 969,711	\$ 969,711
Repurchase Agreement	<u>254,717</u>	<u>254,717</u>
	<u>\$ 1,224,428</u>	<u>\$ 1,224,428</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAA money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

STAR Ohio	\$ 969,711	79.20%
Repurchase Agreement	<u>254,717</u>	<u>20.80%</u>
	<u>\$ 1,224,428</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>		
Carrying amount of deposits	\$ 1,448	
Investments	1,224,428	
Cash on hand	<u>2,000</u>	
Total	<u>\$ 1,227,876</u>	
 <u>Cash and investments per Statement of Net Assets</u>		
Governmental activities	\$ 1,177,036	
Private-purpose trust funds	17,647	
Agency funds	<u>33,193</u>	
Total	<u>\$ 1,227,876</u>	

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$154,248
General	Internal service fund	10,413

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2005 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Sandusky County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$426,280 general fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2004 was \$317,381 in the general fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 100,588,030	86.78	\$ 102,089,650	88.28
Public utility personal	8,250,380	7.11	8,143,840	7.04
Tangible personal property	<u>7,071,214</u>	<u>6.11</u>	<u>5,408,856</u>	<u>4.68</u>
Total	<u>\$ 115,909,624</u>	<u>100.00</u>	<u>\$ 115,642,346</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.45		\$41.45	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 3,433,250
Accounts	1,565
Intergovernmental	<u>180,802</u>
Total	<u>\$ 3,615,617</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 07/01/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 450,809	\$ -	\$ -	\$ 450,809
Total capital assets, not being depreciated	<u>450,809</u>	<u>-</u>	<u>-</u>	<u>450,809</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	90,160	-	-	90,160
Buildings and improvements	4,130,462	-	-	4,130,462
Furniture and equipment	1,087,726	40,196	-	1,127,922
Vehicles	1,326,825	112,600	-	1,439,425
Total capital assets, being depreciated	<u>6,635,173</u>	<u>152,796</u>	<u>-</u>	<u>6,787,969</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(90,160)	-	-	(90,160)
Buildings and improvements	(3,064,523)	(61,790)	-	(3,126,313)
Furniture and equipment	(730,223)	(74,385)	-	(804,608)
Vehicles	(829,675)	(115,894)	-	(945,569)
Total accumulated depreciation	<u>(4,714,581)</u>	<u>(252,069)</u>	<u>-</u>	<u>(4,966,650)</u>
Governmental activities capital assets, net	<u>\$ 2,371,401</u>	<u>\$ (99,273)</u>	<u>\$ -</u>	<u>\$ 2,272,128</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 53,139
Other	5,506

Support Services:

Pupil	25,232
Administration	8,325
Operations and maintenance	5,124
Pupil transportation	121,361
Extracurricular activities	30,072
Food service operations	<u>3,310</u>
Total depreciation expense	<u>\$ 252,069</u>

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capitalized leases for copier equipment and weight equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as general fund expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$328,179. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$93,596 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 104,306
2007	45,991
2008	<u>6,638</u>
Total minimum lease payments	156,935
Less amount representing interest	<u>(7,803)</u>
Total	<u>\$ 149,132</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 242,728	\$ -	\$ (93,596)	\$ 149,132	\$ 98,337
Compensated absences	<u>681,532</u>	<u>19,375</u>	<u>(102,758)</u>	<u>598,149</u>	<u>20,778</u>
Total long-term obligations, governmental activities	<u>\$ 924,260</u>	<u>\$ 19,375</u>	<u>\$ (196,354)</u>	<u>\$ 747,281</u>	<u>\$ 119,115</u>

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code further provides that unvoted indebtedness for energy conservation measures shall not exceed 9/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$10,407,811 and an unvoted debt margin of \$107,813.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District contracted with Ohio School Plan for fleet insurance and liability insurance, and with Indiana Insurance Company for property, inland marine and crime coverage. Coverages provided by these companies are as follows:

Building and contents - replacement cost (\$25,000 deductible)	\$30,690,198
Inland marine coverage (\$250 deductible)	680,000
Crime insurance	100,000
Automobile liability (\$250 deductible)	1,000,000
Uninsured motorists (\$250 deductible)	1,000,000
General liability	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. Also, the District has not materially reduced its coverage in the past year.

B. Workers' Compensation Plan

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

C. Employee Group Health Insurance

The District offers group life insurance to all employees through Guardian Life Insurance Company. The District offers employee group medical/surgical benefits through Medical Mutual of Ohio. The premium for family is \$1,073.51 and for single is \$408.16. The Board pays 90% of the premium for certified employees and the percentage the Board pays for the non-certified employees varies.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

D. Self-Insurance

Dental insurance is offered to employees through a self-insured program. All funds of the District participate in the program and make payments to the dental self-insurance Internal Service fund based on actuarial estimates of the amounts needed to pay prior and current-year claims. The monthly premiums for dental are \$19.43 for single coverage and \$44.42 for family coverage. The dental self-insurance fund provides coverage of up to a maximum of \$1,500 per individual per year. The District utilizes a third party administrator, Ohio Benefits Group, to review all claims, which are then paid by the District. There is no stop-loss coverage. Settled claims have not exceeded self-insured coverage since the inception of this program.

The claims liability of \$12,779 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity during fiscal 2005 and 2004 are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 5,717	\$ 89,029	\$ (81,967)	\$ 12,779
2004	8,972	77,563	(80,818)	5,717

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's total required contributions to SERS, for pension obligations and healthcare benefits, for the fiscal years ended June 30, 2005, 2004, and 2003 were \$202,367, 186,747, and \$103,286, respectively; 48.61% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$103,992 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's total required contributions to STRS, for pension obligations and healthcare benefits, for the fiscal years ended June 30, 2005, 2004, and 2003 were \$521,180, \$517,638, and \$472,547, respectively; 82.79% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$89,672 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$17,145 made by the District and \$8,488 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, one members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$37,227 during fiscal 2005.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, 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.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - POSTEMPLOYMENT BENEFITS

For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$74,777 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance		<u>General Fund</u>
Budget basis		\$ (884,163)
Net adjustment for revenue accruals		298,746
Net adjustment for expenditure accruals		35,731
Net adjustment for other sources/uses		(65)
Adjustment for encumbrances		<u>293,514</u>
GAAP basis		<u>\$ (256,237)</u>

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a defendant in a lawsuit filed by a holder of six bonds and interest coupons. The suit asks for damages totaling \$64,050. The District does not contest that it owes the face amount of the bonds and interest totaling \$34,050. Outside Counsel for the District has advised that at this stage in the proceeding an opinion as to the outcome of the suit is undeterminable.

C. State School Funding Decision

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

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ 189,374	\$ -	\$ 47,190
Current year set-aside requirement	153,078	153,078	-
Qualifying disbursements	<u>(250,780)</u>	<u>(313,318)</u>	<u>-</u>
Total	<u>\$ 91,672</u>	<u>\$ (160,240)</u>	<u>\$ 47,190</u>
Cash balance carried forward to FY 2006	<u>\$ 91,672</u>	<u>\$ -</u>	<u>\$ 47,190</u>

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve. At June 30, 2005, the District had not spent all of the required amounts for textbooks, and the amount is therefore shown as a restricted asset.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

NOTE 16 - STATUTORY RESERVES - (Continued)

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

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for textbooks	\$ 91,672
Amounts restricted for BWC refunds	<u>47,190</u>
Total restricted assets	<u><u>\$ 138,862</u></u>

NOTE 17 - INCOME TAX

The District levies a voted tax of 1.00 percent for general operations on the income of residents and of estates. The tax was approved by voters in March 2004, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and totaled \$46,499 for fiscal year 2005.

NOTE 18 - SUBSEQUENT EVENT

Effective October 1, 2005, Ms. Pamela Barber was hired as the new Treasurer of the District.

**LAKOTA LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
<i>Nutrition Cluster:</i>						
(A), (C) Food Donation	10.550	N/A	\$ -	\$ 136,041	\$ -	\$ 136,041
(A), (D) School Breakfast Program	10.553	049569-05-PU-2004	1,828		1,828	
(A), (D) National School Lunch Program	10.555	049569-LL-P4-2004	36,873		36,873	
(A), (D) National School Lunch Program	10.555	049569-LL-P4-2005	99,039		99,039	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>137,740</u>	<u>136,041</u>	<u>137,740</u>	<u>136,041</u>
U. S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
<i>Special Education Cluster:</i>						
(B), (F) Special Education Grants to States	84.027	049569-6B-SF-2002-P	(41)			
(B) Special Education Grants to States	84.027	049569-6B-SF-2004	113,264		43,217	
Total Special Education- Grants to States			<u>113,223</u>		<u>43,217</u>	
(B) Special Education-Preschool Grants	84.173	049569-6B-SF-2005	275,734		127,746	
Total Special Education - Preschool Grants			<u>275,734</u>		<u>127,746</u>	
Total Special Education Cluster			<u>388,957</u>		<u>170,963</u>	
Title I- Grants to Local Education Agencies	84.010	049269-C1-S1-2004	31,784		43,576	
Title I- Grants to Local Education Agencies	84.010	049269-C1-S1-2005	206,967		180,033	
Total Title I- Grants to Local Education Agencies			<u>206,967</u>		<u>223,609</u>	
Migrant Education State Grant Program	84.011	049569-MG-S1-2003	-		42	
Migrant Education State Grant Program	84.011	049569-MG-S1-2004	84,071		104,597	
Migrant Education State Grant Program	84.011	049569-MG-S1-2005	11,000		29	
Total Migrant Education State Grant Program			<u>95,071</u>		<u>104,668</u>	
Safe and Drug Free Schools and Communities- State Grants	84.186	049569-DR-S1-2004	1,266		2,957	
Safe and Drug Free Schools and Communities- State Grants	84.186	049569-DR-S1-2005	7,862		4,879	
Total Safe and Drug Free Schools and Communities-State Grants			<u>9,128</u>		<u>7,836</u>	
State Grants for Innovative Programs	84.298	049569-C2-S1-2004	2,733		1,676	
State Grants for Innovative Programs	84.298	049569-C2-S1-2005	4,310		3,353	
Total State Grants for Innovative Programs			<u>7,043</u>		<u>5,029</u>	
Education Technology State Grant	84.318	049569-TJ-S1-2004	405		-	
Education Technology State Grant	84.318	049569-TJ-S1-2005	9,249		63	
Total Education Technology State Grants			<u>9,654</u>		<u>63</u>	
Improving Teacher Quality State Grants	84.367	049569-TR-S1-2004	683		7,418	
Improving Teacher Quality State Grants	84.367	049569-TR-S1-2005	71,600		51,200	
Total Improving Teacher Quality State Grants			<u>72,283</u>		<u>58,618</u>	
Total U. S. Department of Education			<u>789,103</u>		<u>570,786</u>	
Total Federal Financial Assistance			<u>\$ 926,843</u>	<u>\$ 136,041</u>	<u>\$ 708,526</u>	<u>\$ 136,041</u>

- (A) Included as part of the "Nutrition Grant Cluster" in determining major programs
- (B) Included as part of "Special Education Cluster" in determining major programs.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in first-out basis
- (E) This schedule was prepared on the cash basis of accounting.
- (F) Amount of \$41 carried over to fiscal year 2005 grant based on Ohio Department of Education administrative action



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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*

Board of Education
Lakota Local School District
365 Union Street
Risingsun, Ohio 43457-0005

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Lakota Local School District as of and for the fiscal year ended June 30, 2005, which collectively comprise the Lakota Local School District's basic financial statements and have issued our report thereon dated January 16, 2006. As disclosed in Note 3 to the financial statements, the Lakota Local School District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. 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 Lakota Local 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. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Lakota Local School District in a separate letter dated January 16, 2006.

Board of Education
Lakota Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lakota Local 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-LLSD-001, 2005-LLSD-002, and 2005-LLSD-003. We also noted certain matters that we reported to management of Lakota Local School District in a separate letter dated January 16, 2006.

This report is intended solely for the information of the Board and management of the Lakota Local School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
January 16, 2006



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**Report on Compliance With Requirements Applicable to Each
Major Federal Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Board of Education
Lakota Local School District
365 Union Street
Risingsun, Ohio 43457-0005

Compliance

We have audited the compliance of Lakota Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each its major federal programs for the fiscal year ended June 30, 2005. As disclosed in Note 3 to the financial statements, the Lakota Local School District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. Lakota Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Lakota Local School District's management. Our responsibility is to express an opinion on Lakota Local School District's compliance based on our audit.

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

Board of Education
Lakota Local School District

In our opinion, Lakota Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that we have reported to the management of the Lakota Local School District in a separate letter dated January 16, 2006.

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



Julian & Grube, Inc.
January 16, 2005

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Title I-Grants to Local Education Agencies: CFDA # 84.010, Nutrition Cluster: Food Donation (CFDA #10.550), School Lunch Program (CFDA #10.553), and National School Lunch Program (CFDA #10.555)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

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

Finding Number	2005-LLSD-001
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Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed estimated resources.

It was noted during the audit that the total appropriations exceeded the total estimated resources in the following funds:

<u>Non-Major Funds</u>	<u>Excess</u>
One Net	\$ 5,000
SchoolNet	15,000
Technology Operations	7,897
Targeted Assistance, Title I	17,571
District Managed Student Activities	29,963
Self-Insurance	21,902

With appropriations exceeding estimated resources the District may spend more funds than in the Treasury or process of collection and cause fund deficits.

We recommend that the District comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year end. If it is determined that estimated resources will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the District should monitor its budgetary process on a regular basis.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)

Finding Number	2005-LLSD-002
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures exceeding appropriations in the following funds:

<u>Non-Major Funds</u>	<u>Excess</u>
District Managed Student Activities	\$ 78,664
Auxiliary Services	926
Ohio Reads	1,016
Technology Operations	11,278
Title II-D	1,353
Food Service	8,156

With expenditures exceeding appropriations, the District is unlawfully expending monies that have not been appropriated. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget throughout the fiscal year. This may be achieved by monitoring the budget more closely on a continual basis.

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

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

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2005-LLSD-003

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies.

It was noted during the audit that at June 30, 2005, the District maintained negative cash fund balances in the following funds.

<u>Non-Major Funds</u>	<u>Excess</u>
District Managed Student Activities	\$102,325
Auxiliary Services	4,335
Management Information System	2,844
Student Intervention	19,159
SchoolNet	25,585
Internal Service	10,413

The District has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end. This causes funds to spend other funds balances.

We recommend that the District properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the General Fund with proper Board approval.

3. FINDINGS AND FEDERAL AWARDS

None

**LAKOTA LOCAL SCHOOL DISTRICT
SANDUSKY COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-LLSD-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed estimated resources.	No	Not Corrected
2004-LLSD-002	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Not Corrected
2004-LLSD-003	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies.	No	Not Corrected
2004-LLSD-004	OMB A-133 requires that target assistance, Title I District's establish and maintain a priority list in order to determine eligibility for serving students	Yes	Fully Corrected. The District Title I coordinator now maintains a priority list to determine eligibility for students.



**Auditor of State
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LAKOTA LOCAL SCHOOL DISTRICT

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2006**