



**Mary Taylor, CPA**  
Auditor of State



**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Otsego Local School District  
Wood County  
18505 Tontogany Creek Road  
P.O. Box 290  
Tontogany, Ohio 43656-0290

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

February 25, 2008

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED**

The discussion and analysis of Otsego Local School District's (the District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Highlights for fiscal year 2007 were as follows:

- Net assets increased \$1,303,417, or approximately 24 percent. For fiscal year 2007, revenues increased by 7 percent while expenses only increased 4 percent. The increase in revenues is primarily the result of increases in both property tax and income tax revenues.
- General revenues were \$14,772,140, or 85 percent of all governmental activities revenues, and demonstrate the School District's significant dependence on property and income taxes as well as State funding.

**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Otsego Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 School District's most significant funds with all other nonmajor funds presented in total in a single column.

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

In the statement of net assets and the statement of activities, all of the School District's activities are reflected as governmental activities. The programs and services reported here include instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property and income tax revenues as well as unrestricted State entitlements.

**Reporting the School District's Most Significant Funds**

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund, the Bond Retirement Fund, and the Building Fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2007 and fiscal year 2006:

Table 1 Net Assets		Governmental Activities	
	2007	2006	Change
<u>Assets</u>			
Current and Other Assets	\$10,493,462	\$17,280,961	(\$6,787,499)
Capital Assets, Net	22,842,223	17,361,064	5,481,159
Total Assets	<u>33,335,685</u>	<u>34,642,025</u>	<u>(1,306,340)</u>

(continued)



**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

Table 1  
Net Assets  
(continued)

	Governmental Activities		
	2007	2006	Change
<u>Liabilities</u>			
Current and Other Liabilities	\$6,742,936	\$9,025,404	\$2,282,468
Long-Term Liabilities	19,922,676	20,249,965	327,289
Total Liabilities	26,665,612	29,275,369	2,609,757
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,596,359	4,385,791	210,568
Restricted	1,224,938	901,302	323,636
Unrestricted	848,776	79,563	769,213
Total Net Assets	\$6,670,073	\$5,366,656	\$1,303,417

A review of the above table reveals some significant changes in assets and liabilities from the prior fiscal year. Current and other assets decreased as resources were spent for construction on the new high school and to reduce various contracts outstanding at the end of fiscal year 2006. These changes are also reflected in the increase in net capital assets as well as the decrease in current and other liabilities.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006:

Table 2  
Change in Net Assets

	Governmental Activities		
	2007	2006	Change
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$1,151,416	\$1,065,607	\$85,809
Operating Grants and Contributions	1,461,719	1,417,388	44,331
Capital Grants and Contributions	36,824	32,385	4,439
Total Program Revenues	<u>2,649,959</u>	<u>2,515,380</u>	<u>134,579</u>
General Revenues			
Property Taxes	5,831,077	4,937,555	893,522
Income Taxes	2,455,986	2,132,251	323,735
Grants and Entitlements	5,974,496	5,936,820	37,676
Interest	360,750	551,224	(190,474)
Gifts and Donations		1,900	(1,900)
Miscellaneous	149,831	186,706	(36,875)
Total General Revenues	<u>14,772,140</u>	<u>13,746,456</u>	<u>1,025,684</u>
Total Revenues	<u>17,422,099</u>	<u>16,261,836</u>	<u>1,160,263</u>
<u>Expenses</u>			
Instruction:			
Regular	\$7,000,754	\$6,437,137	(\$563,617)
Special	2,220,841	1,892,922	(327,919)
Vocational	446,924	450,706	3,782
Support Services:			
Pupils	592,075	715,495	123,420
Instructional Staff	693,024	641,746	(51,278)
Board of Education	27,074	31,707	4,633
Administration	1,237,845	1,321,046	83,201
Fiscal	373,841	372,164	(1,677)
Business	469	946	477
Operation and Maintenance of Plant	945,355	868,807	(76,548)
Pupil Transportation	902,678	806,079	(96,599)
Non-Instructional Services	611,278	587,345	(23,933)
Extracurricular Activities	409,349	379,415	(29,934)
Interest and Fiscal Charges	657,175	996,472	339,297
Total Expenses	<u>16,118,682</u>	<u>15,501,987</u>	<u>(616,695)</u>
Increase in Net Assets	1,303,417	759,849	543,568
Net Assets at Beginning of Year	5,366,656	4,606,807	759,849
Net Assets at End of Year	<u>\$6,670,073</u>	<u>\$5,366,656</u>	<u>\$1,303,417</u>

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

Overall revenues increased by 7 percent from the prior fiscal year and both program and general revenues reflect moderate increases. A large portion of the increase can be seen in the increase in property taxes as Lucas County underwent a property reappraisal (increase due to increase in values and new construction) and income taxes (based on income increases of residents).

While expenses remained very comparable to fiscal year 2006, there was a slight increase in expenses of 4 percent. As is to be expected, instruction programs are the School District's largest expense, accounting for 60 percent of all governmental activities expenses. Combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance of plant, and pupil transportation, 79 percent of all of the School District's expenses are related directly to the functions of delivering education and maintaining facilities.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported primarily from tax revenues.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction:				
Regular	\$7,000,754	\$6,437,137	\$6,347,141	\$5,781,092
Special	2,220,841	1,892,922	1,200,425	991,010
Vocational	446,924	450,706	379,078	382,991
Support Services:				
Pupils	592,075	715,495	581,500	703,083
Instructional Staff	693,024	641,746	693,024	641,746
Board of Education	27,074	31,707	27,074	31,707
Administration	1,237,845	1,321,046	1,237,845	1,321,046
Fiscal	373,841	372,164	373,841	372,164
Business	469	946	469	946
Operation and Maintenance of Plant	945,355	868,807	945,355	868,807
Pupil Transportation	902,678	806,079	863,131	775,022
Non-Instructional Services	611,278	587,345	(79,430)	(78,858)
Extracurricular Activities	409,349	379,415	242,095	199,379
Interest and Fiscal Charges	657,175	996,472	657,175	996,472
<b>Total Expenses</b>	<b>\$16,118,682</b>	<b>\$15,501,987</b>	<b>\$13,468,723</b>	<b>\$12,986,607</b>

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

As demonstrated in the above table, the total cost of services and the net costs of services were very comparable for fiscal year 2007 and 2006. The table also demonstrates that several of the School District's programs are substantially provided for through program revenues. For instance, 46 percent of the special instruction program costs were provided for through program revenues, those primarily being operating grants restricted for special instruction purposes. For fiscal year 2007, all of the cost of the non-instructional program was paid for through cafeteria sales, state and federal subsidies and donated commodities for food service operations. Extracurricular activities costs are largely supported by music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance in the General Fund increased 24 percent from the fiscal year 2006 as revenues increased 8.6 percent and expenditures only increased 5.7 percent. The largest increase in revenues was due to the increases in property taxes and income taxes mentioned earlier. Fund balance in the Bond Retirement fund almost doubled as current tax collections continue to exceed principal and interest payments. Fund balance in the Building Fund decreased by 91 percent as resources were spent for construction.

**General Fund Budgeting Highlights**

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

During fiscal year 2007, the School District amended its General Fund budget as needed. Changes from the original budget to the final budget and from the final budget to actual revenues received were not significant. The same can be said for expenditures.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the School District had \$22,842,223 invested in capital assets (net of accumulated depreciation) for governmental activities, a 32 percent increase from the prior fiscal year. This increase was primarily due to construction of the new high school. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

**Debt**

At June 30, 2007, the School District had outstanding general obligation bonds, in the amount of \$18,990,326. The School District's long-term obligations also include compensated absences.

During fiscal year 2007, the School District advance refunded \$15,385,000 in school facilities construction and improvement bonds. This refunding resulted in an economic gain of \$906,921. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)**

**Current Issues**

Otsego Local School District is a rural school district located in Wood County and relies heavily on the local taxpayer's for General Fund revenue. Approximately 8 percent of the School District's local revenue came from tangible personal property tax. The systematic elimination of this tax under HB 66 and the State's temporary reimbursement of the loss is quite concerning to the School District. Regardless of the amount compared to the overall local revenue, it is still a loss that most likely will be passed onto the local taxpayer.

The School District has experienced mild increases in enrollment the last several years. The School District serves just over 1730 students and employs one hundred-three teachers.

Current projections of the School District's financial status indicate the need for additional revenues as early as fiscal year 2009. The School District's income tax collections continue to come in below original estimates which impacts this shortfall in revenue significantly. Although the School District continues to spend as prudently as possible to provide an outstanding education to the youth in the School District, it may no longer be possible in the near future to educate within the current revenue flows projected. This may make it necessary to ask residents for additional financial support and consider staff and program cuts and implement a pay-to-play policy for extracurricular activities.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Pamela Harrington, Treasurer, Otsego Local School District, 18505 Tontogany Creek Road, PO Box 290, Tontogany, Ohio 43565-0290.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Net Assets  
June 30, 2007**

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,955,264
Cash and Cash Equivalents with Fiscal Agents	4,772
Cash and Cash Equivalents with Escrow Agents	634,332
Accounts Receivable	12,824
Accrued Interest Receivable	19,518
Intergovernmental Receivable	57,268
Income Taxes Receivable	1,142,781
Prepaid Items	143
Inventory Held for Resale	7,725
Materials and Supplies Inventory	2,482
Property Taxes Receivable	5,388,161
Unamortized Issuance Cost	268,192
Nondepreciable Capital Assets	18,373,664
Depreciable Capital Assets, Net	4,468,559
Total Assets	33,335,685
 <u>Liabilities:</u>	
Accounts Payable	131,221
Contracts Payable	167,140
Accrued Wages and Benefits Payable	1,025,449
Intergovernmental Payable	321,779
Matured Compensated Absences Payable	27,141
Retainage Payable	645,563
Deferred Revenue	4,368,301
Accrued Interest Payable	56,342
Long-Term Liabilities:	
Due Within One Year	577,179
Due in More Than One Year	19,345,497
Total Liabilities	26,665,612
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,596,359
Restricted For:	
Debt Service	404,904
Capital Projects	697,061
Athletics and Music	50,748
Other Purposes	72,225
Unrestricted	848,776
Total Net Assets	\$6,670,073

See Accompanying Notes to Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2007**

	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$7,000,754	\$490,294	\$152,577	\$10,742	(\$6,347,141)
Special	2,220,841	15,014	1,005,402		(1,200,425)
Vocational	446,924		67,846		(379,078)
Support Services:					
Pupils	592,075		10,575		(581,500)
Instructional Staff	693,024				(693,024)
Board of Education	27,074				(27,074)
Administration	1,237,845				(1,237,845)
Fiscal	373,841				(373,841)
Business	469				(469)
Operation and Maintenance of Plant	945,355				(945,355)
Pupil Transportation	902,678		22,324	17,223	(863,131)
Non-Instructional Services	611,278	510,353	180,355		79,430
Extracurricular Activities	409,349	135,755	22,640	8,859	(242,095)
Interest and Fiscal Charges	657,175				(657,175)
Total Governmental Activities	<u>\$16,118,682</u>	<u>\$1,151,416</u>	<u>\$1,461,719</u>	<u>\$36,824</u>	<u>(13,468,723)</u>
<u>General Revenues:</u>					
Property Taxes Levied for General Purposes					4,427,009
Property Taxes Levied for Debt Service					1,228,419
Property Taxes Levied for Permanent Improvements					175,649
Income Taxes Levied for General Purposes					2,455,986
Grants and Entitlements not Restricted to Specific Programs					5,974,496
Interest					360,750
Miscellaneous					149,831
Total General Revenues					<u>14,772,140</u>
Change in Net Assets					1,303,417
Net Assets at Beginning of Year					<u>5,366,656</u>
Net Assets at End of Year					<u><u>\$6,670,073</u></u>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2007**

	General	Bond Retirement	Building	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$1,449,064	\$517,375	\$670,756	\$300,846	\$2,938,041
Cash and Cash Equivalents with Fiscal Agents				4,772	4,772
Accounts Receivable	12,824				12,824
Accrued Interest Receivable	7,017		12,501		19,518
Interfund Receivable				1,789	1,789
Intergovernmental Receivable	31,805			25,463	57,268
Income Taxes Receivable	1,142,781				1,142,781
Prepaid Items	143				143
Inventory Held for Resale				7,725	7,725
Materials and Supplies Inventory				2,482	2,482
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	17,223				17,223
Cash and Cash Equivalents with Escrow Agents			634,332		634,332
Property Taxes Receivable	4,106,884	1,118,774		162,503	5,388,161
<b>Total Assets</b>	<b>\$6,767,741</b>	<b>\$1,636,149</b>	<b>\$1,317,589</b>	<b>\$505,580</b>	<b>\$10,227,059</b>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$122,101			\$9,120	\$131,221
Contracts Payable	1,112		\$148,645	17,383	167,140
Accrued Wages and Benefits Payable	961,614			63,835	1,025,449
Interfund Payable	1,789				1,789
Intergovernmental Payable	295,143			26,636	321,779
Matured Compensated Absences Payable	27,141				27,141
Retainage Payable			11,231		11,231
<u>Payable from Restricted Assets:</u>					
Retainage Payable			634,332		634,332
Deferred Revenue	3,597,038	\$922,170		143,267	4,662,475
<b>Total Liabilities</b>	<b>5,005,938</b>	<b>922,170</b>	<b>794,208</b>	<b>260,241</b>	<b>6,982,557</b>
<u>Fund Balances:</u>					
Reserved for Property Taxes	675,256	196,168		26,349	897,773
Reserve for Bus Purchase	17,223				17,223
Reserved for Encumbrances	71,369		276,918	21,987	370,274
<u>Unreserved, Reported in:</u>					
General Fund	997,955				997,955
Special Revenue Funds				63,173	63,173
Debt Service Fund		517,811			517,811
Capital Projects Funds			246,463	133,830	380,293
<b>Total Fund Balances</b>	<b>1,761,803</b>	<b>713,979</b>	<b>523,381</b>	<b>245,339</b>	<b>3,244,502</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$6,767,741</b>	<b>\$1,636,149</b>	<b>\$1,317,589</b>	<b>\$505,580</b>	<b>\$10,227,059</b>

See Accompanying Notes to the Basic Financial Statements



**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2007**

Total Governmental Fund Balances	\$3,244,502
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	22,842,223
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$11,918	
Intergovernmental Receivable	7,233	
Income Taxes Receivable	156,628	
Property Taxes Receivable	<u>118,395</u>	
		294,174

Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.	268,192
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(56,342)	
General Obligation Bonds Payable	(18,990,326)	
Compensated Absences Payable	<u>(932,350)</u>	
		<u>(19,979,018)</u>

Net Assets of Governmental Activities	<u><u>\$6,670,073</u></u>
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See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2007**

	General	Bond Retirement	Building	Other Governmental	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$4,414,671	\$1,225,341		\$175,169	\$5,815,181
Income Taxes	2,417,767				2,417,767
Intergovernmental	6,311,848	131,237		991,222	7,434,307
Interest	198,270		\$191,462		389,732
Tuition and Fees	615,341				615,341
Extracurricular Activities	9,215			126,540	135,755
Charges for Services				397,777	397,777
Gifts and Donations	5,200			17,440	22,640
Miscellaneous	110,457		18,306	21,068	149,831
<b>Total Revenues</b>	<b>14,082,769</b>	<b>1,356,578</b>	<b>209,768</b>	<b>1,729,216</b>	<b>17,378,331</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular	6,662,112			29,381	6,691,493
Special	1,544,906			657,360	2,202,266
Vocational	466,054			4,000	470,054
<b>Support Services:</b>					
Pupils	603,998			16,212	620,210
Instructional Staff	650,555			41,225	691,780
Board of Education	27,074				27,074
Administration	1,148,144			60,771	1,208,915
Fiscal	360,970	12,168		3,447	376,585
Business	469				469
Operation and Maintenance of Plant	1,002,120			3,756	1,005,876
Pupil Transportation	891,949				891,949
<b>Non-Instructional Services</b>					
Extracurricular Activities	256,317			139,020	395,337
Capital Outlay	44,991		5,384,779	356,695	5,786,465
<b>Debt Service:</b>					
Principal Retirement		255,000			255,000
Interest and Fiscal Charges		747,338			747,338
Issuance Costs		238,209			238,209
<b>Total Expenditures</b>	<b>13,659,659</b>	<b>1,252,715</b>	<b>5,384,779</b>	<b>1,912,781</b>	<b>22,209,934</b>
Excess of Revenues Over (Under) Expenditures	423,110	103,863	(5,175,011)	(183,565)	(4,831,603)
<b>Other Financing Sources (Uses):</b>					
General Obligation Bonds Issued		15,385,000			15,385,000
Premium on Bonds Issued		1,552,903			1,552,903
Discount on Bonds Issued		(75,866)			(75,866)
Payment to Refunded Bond Escrow Agent		(16,616,254)			(16,616,254)
Transfers In				85,000	85,000
Transfers Out	(85,000)				(85,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(85,000)</b>	<b>245,783</b>		<b>85,000</b>	<b>245,783</b>
Changes in Fund Balances	338,110	349,646	(5,175,011)	(98,565)	(4,585,820)
Fund Balances at Beginning of Year	1,423,693	364,333	5,698,392	343,904	7,830,322
Fund Balances at End of Year	<u>\$1,761,803</u>	<u>\$713,979</u>	<u>\$523,381</u>	<u>\$245,339</u>	<u>\$3,244,502</u>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement of Activities  
For the Fiscal Year Ended June 30, 2007**

Changes in Fund Balances - Total Governmental Funds		(\$4,585,820)
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p> <p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year:</p>		
Capital Outlay - Nondepreciable Capital Assets	\$5,547,126	
Capital Outlay - Depreciable Capital Assets	291,603	
Capital Contributions	8,859	
Depreciation	<u>(276,937)</u>	
		5,570,651
<p>The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities.</p>		
		(89,492)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Property Taxes	15,896	
Income Taxes	38,219	
Intergovernmental	7,233	
Interest	(28,982)	
Tuition and Fees	<u>2,543</u>	
		34,909
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
Payment to Bond Escrow Agent	16,616,254	
General Obligation Bonds	<u>255,000</u>	
		16,871,254
<p>Bond proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.</p>		
		(15,385,000)
<p>Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. Premiums and discounts are reported as revenues/expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of net assets.</p>		
Accrued Interest Payable	15,741	
Annual Accretion on Capital Appreciation Bonds	(92,705)	
Amortization of Premium	465,443	
Unamortized Premium	(1,552,903)	
Amortization of Discount	(90,246)	
Unamortized Discount	<u>75,866</u>	
		(1,178,804)
<p>Issuance costs are reported as an expenditure when paid in the governmental funds, but is accrued on outstanding debt on the statement of net assets.</p>		
Amortization of Issuance Costs	(208,070)	
Unamortized Issuance Costs	<u>238,209</u>	
		30,139
<p>Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		<u>35,580</u>
Change in Net Assets of Governmental Activities		<u><u>\$1,303,417</u></u>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$3,797,128	\$3,989,476	\$3,974,301	(\$15,175)
Income Taxes	2,166,335	2,296,335	2,332,525	36,190
Intergovernmental	6,393,237	6,412,604	6,313,637	(98,967)
Interest	147,758	147,758	196,880	49,122
Tuition and Fees	545,410	595,410	620,395	24,985
Extracurricular Activities	9,000	9,000	9,215	215
Gifts and Donations	11,000	11,000	5,200	(5,800)
Miscellaneous	71,718	71,718	42,653	(29,065)
Total Revenues	<u>13,141,586</u>	<u>13,533,301</u>	<u>13,494,806</u>	<u>(38,495)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,798,493	6,803,440	6,750,123	53,317
Special	1,496,099	1,496,099	1,547,840	(51,741)
Vocational	470,155	470,154	440,550	29,604
Support Services:				
Pupils	683,203	695,855	617,345	78,510
Instructional Staff	668,989	678,531	652,126	26,405
Board of Education	27,914	27,914	27,073	841
Administration	1,238,294	1,232,931	1,163,219	69,712
Fiscal	374,942	383,342	359,885	23,457
Business	910	910	654	256
Operation and Maintenance of Plant	1,114,337	1,095,421	1,035,125	60,296
Pupil Transportation	990,028	983,377	897,356	86,021
Extracurricular Activities	286,559	286,559	256,561	29,998
Capital Outlay	35,000	107,781	72,781	35,000
Total Expenditures	<u>14,184,923</u>	<u>14,262,314</u>	<u>13,820,638</u>	<u>441,676</u>
Excess of Revenues				
Under Expenditures	<u>(1,043,337)</u>	<u>(729,013)</u>	<u>(325,832)</u>	<u>403,181</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	36,000	36,000	37,547	1,547
Refund of Prior Year Receipts	(15)	(15)		15
Advances Out	(6,000)	(21,000)		21,000
Transfers Out	(70,000)	(70,000)	(85,000)	(15,000)
Total Other Financing Sources (Uses)	<u>(40,015)</u>	<u>(55,015)</u>	<u>(47,453)</u>	<u>7,562</u>
Changes in Fund Balance	(1,083,352)	(784,028)	(373,285)	410,743
Fund Balance at Beginning of Year	1,556,453	1,556,453	1,556,453	
Prior Year Encumbrances Appropriated	87,566	87,566	87,566	
Fund Balance at End of Year	<u>\$560,667</u>	<u>\$859,991</u>	<u>\$1,270,734</u>	<u>\$410,743</u>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2007**

	Private Purpose Trust	Agency
	<hr/>	<hr/>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$66,894	<u><u>\$60,788</u></u>
<u>Liabilities:</u>		
Undistributed Assets	<hr/>	<u><u>\$60,788</u></u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	38,914	
Endowment	<u>27,980</u>	
Total Net Assets	<u><u>\$66,894</u></u>	

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Statement of Change in Fiduciary Net Assets  
Private Purpose Trust Fund  
June 30, 2007**

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Interest	\$3,207
Gifts and Donations	969
Total Additions	<u>4,176</u>
 <u>Deductions:</u>	
Non-Instructional	<u>1,027</u>
 Change in Net Assets	3,149
 Net Assets at Beginning of Year	<u>63,745</u>
Net Assets at End of Year	<u><u>\$66,894</u></u>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Otsego Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District serves an area of approximately one hundred forty-four square miles. It is located in portions of Wood, Lucas, and Henry Counties, including the villages of Tontogany, Haskins, Grand Rapids, and Weston, and portions of surrounding townships. The School District is the 329th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by sixty-three classified employees, one hundred three certified teaching personnel, and eight administrative employees who provide services to one thousand seven hundred thirty students and other community members. The School District currently operates three elementary schools, one middle school, and one comprehensive high school.

**Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Otsego Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Otsego Local School District.

The School District participates in six jointly governed organizations, a related organization, and two insurance pools. These organizations are the Northwest Ohio Computer Association, Northern Buckeye Education Council, Penta Career Center, Northwestern Ohio Educational Research Council, Inc., Northwest Ohio Regional Professional Development Center, Northwest Ohio Special Education Regional Resource Center, Weston Public Library, Wood County Schools Benefit Plan Association, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19, 20, and 21 to the basic financial statements.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are reported in two categories, governmental and fiduciary.



**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Governmental Funds

Governmental funds are those through which most governmental functions of the School District 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 School District's major governmental funds are the General Fund, the Bond Retirement debt service fund, and the Building capital projects 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs on general obligation bonds.

Building Fund - The Building Fund is used to account for the construction of new school buildings.

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

Fiduciary Funds

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

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus.

**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; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the 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 both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, are 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 are reported as deferred revenue.

Expenses/Expenditures

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

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is at the object level for the General Fund and the fund level for all other funds. Budgetary allocations at the function level in the General Fund and the function and object level within all other funds are made by the School District Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**F. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2007, investments included mutual funds, federal agency securities, and STAR Ohio. Investments are reported at fair value, which is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2007 was \$198,270, which includes \$53,266 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of donated and purchased food.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent unexpended revenues restricted for bus purchases and escrow accounts established for the payment of retainage on construction projects upon completion.

**J. Capital Assets**

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets, except land and construction in progress, 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:

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 - 40 years
Buildings and Building Improvements	5 - 100 years
Furniture, Fixtures, and Equipment	5 - 30 years
Vehicles	15 years

**K. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

**L. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after twenty years of service, all employees age forty-five after fifteen years of service, and all employees age fifty after ten years of service.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**M. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted to expenditure for specified purposes.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, there were no net assets restricted by enabling legislation.

**O. Fund Balance Reserves**

The School District reserves those portions of fund balance 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 which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, bus purchase, and encumbrances.

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

**P. Capital Contributions**

Capital contributions arise from outside contributions of capital assets.

**Q. Interfund Transactions**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

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

**R. Unamortized Issuance Costs, Premiums, and Discounts**

On government-wide financial statements, issuance costs, premiums, and discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges. Bond premiums are presented as an addition to the face amount of bonds payable. Bond discounts are presented as a reduction of the face amount of bonds payable.

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the current period.

**S. Unamortized Loss on Advance Refunding**

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a reduction of the face amount of the new debt.

**T. Estimates**

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

**NOTE 3 - ACCOUNTABILITY**

At June 30, 2007, the Food Service, Public Preschool, SchoolNet Professional, and Title I special revenue funds had deficit fund balances, in the amount of \$20,369, \$7, \$1,911, and \$996, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)**

The major differences between the budget basis and the GAAP basis are as follows:

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

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance	
GAAP Basis	\$338,110
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2006, Received in Cash FY 2007	1,152,065
Accrued FY 2007, Not Yet Received in Cash	(1,702,484)
Accrued FY 2006, Paid in Cash FY 2007	(1,373,449)
Accrued FY 2007, Not Yet Paid in Cash	1,407,111
Cash Adjustments:	
Unrecorded Activity FY 2006	112
Unrecorded Activity FY 2007	(109)
Prepaid Items	803
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(195,444)
Budget Basis	(\$373,285)



**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS – (CONTINUED)**

Investments

As of June 30, 2007, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Mutual Funds	\$18,549	average 46.89 days
Federal Home Loan Bank Notes	200,000	7/5/07
Federal Home Loan Bank Notes	300,000	7/6/07
Federal National Mortgage Association Notes	99,969	7/15/07
STAR Ohio	586,239	average 38.56 days
Total Investments	<u>\$1,204,757</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of purchase unless they are matched to a specific obligation or debt of the School District.

The federal agency securities and the mutual fund carry a rating of AAA by Moody's or Standards & Poor's. STAR Ohio carries a rating of AAA by Standards and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must consist of securities listed in items 1 and 2 on page 31.

The School District places no limit on the amount it may invest in any one issuer. The following table indicates the percentage of investments to the School District's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank	\$500,000	41.5%
Federal National Mortgage Association	99,969	8.3

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2007, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. 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. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 6 – RECEIVABLES – (CONTINUED)**

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Northern Buckeye Education Council	\$31,805
Other Governmental Funds	
State of Ohio	1,826
Core Grant	7,233
Title II-A	16,404
Total Governmental Activities	\$57,268

**NOTE 7 - INCOME TAXES**

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

**NOTE 8 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 8 - PROPERTY TAXES – (CONTINUED)**

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, this settlement was not received by the School District within fiscal year 2007.

The School District receives property taxes from Wood, Lucas, and Henry Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2007, and for which there was 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 and the late personal property tax settlement were levied to finance current fiscal year operations and are reflected 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, 2007, was \$675,256 in the General Fund, \$196,168 in the Bond Retirement debt service fund, and \$26,349 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2006, was \$231,112 in the General Fund, \$69,297 in the Bond Retirement debt service fund, and \$9,341 in the Permanent Improvement capital projects fund.

The late tax settlement made by the counties for fiscal year 2007 was \$3,136 in the General Fund, \$436 in the Bond Retirement debt service fund, and \$120 in the Permanent Improvement capital projects fund. For fiscal year 2006, these amounts were \$6,910 in the General Fund, \$994 in the Bond Retirement debt service fund, and \$265 in the Permanent Improvement capital projects fund.

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

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 8 - PROPERTY TAXES – (CONTINUED)**

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$178,521,940	87.47%	\$185,283,500	88.12%
Industrial/Commercial	13,436,780	6.58	13,889,290	6.60
Public Utility	6,477,600	3.17	6,720,280	3.20
Tangible Personal	5,662,984	2.78	4,379,902	2.08
<b>Total Assessed Value</b>	<b>\$204,099,304</b>	<b>100.00%</b>	<b>\$210,272,972</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$49.30		\$49.10	

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$143,659			\$143,659
Construction in Progress	12,857,029	\$5,547,126	(\$174,150)	18,230,005
<b>Total Nondepreciable Capital Assets</b>	<b>13,000,688</b>	<b>5,547,126</b>	<b>(174,150)</b>	<b>18,373,664</b>
Depreciable Capital Assets				
Land Improvements	532,452	15,396		547,848
Buildings and Building Improvements	5,640,753	198,650	(141,422)	5,697,981
Furniture, Fixtures, and Equipment	714,740	165,241	(95,023)	784,958
Vehicles	1,122,626	95,325	(11,300)	1,206,651
<b>Total Depreciable Capital Assets</b>	<b>\$8,010,571</b>	<b>\$474,612</b>	<b>(\$247,745)</b>	<b>\$8,237,438</b>

(continued)

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 9 - CAPITAL ASSETS – (CONTINUED)**

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Governmental Activities (continued)				
Less Accumulated Depreciation				
Land Improvements	(\$163,339)	(\$20,181)		(\$183,520)
Buildings and Building Improvements	(2,415,482)	(156,743)	\$79,232	(2,492,993)
Furniture, Fixtures, and Equipment	(479,129)	(42,413)	71,111	(450,431)
Vehicles	(592,245)	(57,600)	7,910	(641,935)
Total Accumulated Depreciation	<u>(3,650,195)</u>	<u>(276,937)</u>	<u>158,253</u>	<u>(3,768,879)</u>
Depreciable Capital Assets, Net	<u>4,360,376</u>	<u>197,675</u>	<u>(89,492)</u>	<u>4,468,559</u>
Governmental Activities Capital Assets, Net	<u>\$17,361,064</u>	<u>\$5,744,801</u>	<u>(\$263,642)</u>	<u>\$22,842,223</u>

The School District accepted contributions of depreciable capital assets for governmental activities with a fair value of \$8,859 during fiscal year 2007.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$113,549
Special	21,255
Vocational	2,361
Support Services:	
Instructional Staff	2,536
Administration	10,846
Fiscal	1,081
Operation and Maintenance of Plant	29,526
Pupil Transportation	53,525
Non-Instructional Services	8,246
Extracurricular Activities	34,012
Total Depreciation Expense	<u>\$276,937</u>

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 10 - INTERFUND ASSETS/LIABILITIES**

At June 30, 2007, other governmental funds had an interfund receivable from the General Fund, in the amount of \$1,789, for a short-term loan.

**NOTE 11 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted for the following insurance coverage:

Coverage provided by Indiana Insurance is as follows:

General School District Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Building and Contents	24,416,673
Umbrella Liability	1,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

The School District participates in the Wood County Schools Benefit Plan Association (Association), a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and the Educational Service Center. The School District pays monthly premiums to the Association for employee medical and dental benefits. The Association is responsible for the management and operations of the program and the payment of all claims. Upon withdrawal from the Association, a participant is responsible for the payment of all liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent 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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006, and 2005, was \$764,894, \$774,564, and \$747,293 respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$3,950 made by the School District and \$7,755 made by plan members.



**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 12 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)**

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available 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 43215-3746.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, was \$144,790, \$141,461, and \$191,294, respectively; 43 percent has been contributed for the fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2007, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$59,142.

**OTSEGO LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 13 - POSTEMPLOYMENT BENEFITS – (CONTINUED)**

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest information available). For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$68,222 for fiscal year 2007.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

**NOTE 14 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Health Care Benefits**

The School District offers medical and dental benefits to full-time employees through the Wood County Schools Benefit Plan Association. Vision benefits are available through the Vision Service Plan. The School District also offers life insurance to all employees through either Madison National Life Insurance Company or the Northern Buckeye Educational Council (NBEC) Life Insurance Program.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 15 - LONG-TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07	Amounts Due Within One Year
<b>General Obligation Bonds</b>					
FY 2007 School Facilities Construction and Improvement Refunding					
Serial Bonds 4 - 4.125%	\$	\$6,785,000		\$6,785,000	\$90,000
Term Bonds 4%		2,135,000		2,135,000	
<b>General Obligation Bonds</b>					
FY 2007 School Facilities Construction and Improvement Refunding (continued)					
Capital Appreciation Bonds		\$45,000		\$45,000	
Accretion on Capital Appreciation Bonds		9,731		9,731	
Premium		900,872		900,872	
Discount		(32,861)		(32,861)	
Accounting Loss		(734,024)		(734,024)	
FY 2007 School Facilities Construction and Improvement Refunding					
Serial Bonds 4 - 4.125%		5,215,000		5,215,000	\$105,000
Term Bonds 4%		985,000		985,000	
Capital Appreciation Bonds		220,000		220,000	
Accretion on Capital Appreciation Bonds		15,550		15,550	
Premium		652,031		652,031	
Discount		(43,005)		(43,005)	
Accounting Loss		(497,230)		(497,230)	
FY 2004 School Facilities Construction and Improvement					
Serial Bonds 5.0233%	\$3,725,000		\$1,320,000	2,405,000	315,000
Term Bonds 5 - 5.375%	14,300,000		14,300,000		
Capital Appreciation Bonds	235,000			235,000	
Accretion on Capital Appreciation Bonds	105,012	67,424		172,436	
Premium	743,996		465,443	278,553	
Discount	(101,973)		(90,246)	(11,727)	
FY 1994 School Facilities Improvement 5.0983%					
	275,000		20,000	255,000	20,000
<b>Total General Obligation Bonds</b>	<b>19,282,035</b>	<b>15,723,488</b>	<b>16,015,197</b>	<b>18,990,326</b>	<b>530,000</b>
Compensated Absences Payable	967,930	60,906	96,486	932,350	47,179
<b>Total Governmental Activities Long-Term Liabilities</b>	<b>\$20,249,965</b>	<b>\$15,784,394</b>	<b>\$16,111,683</b>	<b>\$19,922,676</b>	<b>\$577,179</b>

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 15 - LONG-TERM OBLIGATIONS – (CONTINUED)**

FY 2007 School Facilities Construction and Improvement Refunding Bonds - On December 21, 2006, the School District issued bonds, in the amount of \$8,965,000, to partially refund bonds previously issued in fiscal year 2004 for buildings and other improvements. The refunding bond issue includes serial, term, and capital appreciation bonds, in the amount of \$6,785,000, \$2,135,000 and \$45,000, respectively. The capital appreciation bonds were issued at a premium of \$900,872, and the serial and term bonds were issued at a discount of \$32,861. The bonds were issued for a twenty-six year period, with final maturity during fiscal year 2033. The bonds will be retired through the Bond Retirement debt service fund.

The net proceeds of the refunding bond issue, in the amount of \$9,699,049, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the 2004 School Facilities Construction and Improvement Bonds. As a result, \$8,965,000 of the 2004 School Facilities Construction and Improvement Bonds are considered to be defeased and the liability for those bonds has been removed from the School District's financial statements. At June 30, 2007, \$8,965,000 of this debt was still outstanding.

Although the refunding will result in the recognition of an accounting loss of \$734,024, the School District in effect decreased its aggregated debt service payments by \$1,042,874 over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$652,050.

The serial bonds are subject to optional redemption, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, on any date on or after December 1, 2017, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature on December 1, 2014, December 1, 2015, and December 1, 2016, in the amount of \$95,000, \$620,000, and \$630,000, respectively. For fiscal year 2007, \$9,731 was accreted on the capital appreciation bonds for a total bond value of \$54,731 at fiscal year end.

FY 2007 School Facilities Construction and Improvement Refunding Bonds - On January 30, 2007, the School District issued bonds, in the amount of \$6,420,000, to partially refund bonds previously issued in fiscal year 2004 for buildings and other improvements. The refunding bond issue includes serial, term, and capital appreciation bonds, in the amount of \$5,215,000, \$985,000 and \$220,000, respectively. The capital appreciation bonds were issued at a premium of \$652,031, and the serial and term bonds were issued at a discount of \$43,005. The bonds were issued for a twenty-two year period, with final maturity during fiscal year 2029. The bonds will be retired through the Bond Retirement debt service fund.

The net proceeds of the refunding bond issue, in the amount of \$6,917,205, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the 2004 School Facilities Construction and Improvement Bonds. As a result, \$6,420,000 of the 2004 School Facilities Construction and Improvement Bonds are considered to be defeased and the liability for those bonds has been removed from the School District's financial statements. At June 30, 2007, \$6,420,000 of this debt was still outstanding.

Although the refunding will result in the recognition of an accounting loss of \$497,230, the School District in effect decreased its aggregated debt service payments by \$366,363 over the next twenty-two years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$254,871.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 15 - LONG-TERM OBLIGATIONS – (CONTINUED)**

The serial bonds are subject to optional redemption, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, on any date on or after December 1, 2028, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature on December 1, 2017, and December 1, 2018, in the amount of \$690,000, and \$685,000, respectively. For fiscal year 2007, \$15,550 was accreted on the capital appreciation bonds for a total bond value of \$235,550 at fiscal year end.

FY 2004 School Facilities Construction and Improvement Bonds - On June 17, 2004, the School District issued \$18,400,000 in voted general obligation bonds for constructing a new high school building. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$3,865,000, \$14,300,000, and \$235,000, respectively. The bonds were issued for a twenty-eight year period, with final maturity in fiscal year 2032. During fiscal year 2007, a portion of the serial bonds, in the amount of \$1,085,000, and a portion of the term bonds, in the amount of \$14,300,000, were advance refunded. The bonds are being retired through the Bond Retirement debt service fund.

The capital appreciation bonds are not subject to redemption prior to maturity. The capital appreciation bonds will mature on December 1, 2010, and December 1, 2011, in the amount of \$405,000 and \$420,000, respectively. For fiscal year 2007, \$67,424 was accreted on the capital appreciation bonds for a total bond value of \$407,436 at fiscal year end.

FY 1994 School Facilities Improvement Bonds - On February 1, 1994, the School District issued \$425,000 in voted general obligation bonds for improvements to an existing building. The bonds were issued for a twenty-three year period, with final maturity in fiscal year 2017. The bonds are being retired through the Bond Retirement debt service fund.

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was (\$344,804) with an unvoted debt margin of \$199,280 at June 30, 2007. On August 13, 2002, the Tax Equalization Department approved the School District as a Special Needs District that allows them to have a negative debt margin.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 15 - LONG-TERM OBLIGATIONS – (CONTINUED)**

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			Interest	Total
	Serial	Term	Capital		
2008	\$530,000			\$700,004	\$1,230,004
2009	500,000			682,453	1,182,453
2010	535,000			664,524	1,199,524
2011	180,000		\$125,976	930,318	1,236,294
2012	190,000		109,024	954,620	1,253,644
2013-2017	2,140,000		45,000	4,220,421	6,405,421
2018-2022	1,450,000	\$950,000	220,000	3,767,370	6,387,370
2023-2027	3,490,000	1,010,000		1,836,520	6,336,520
2028-2032	4,390,000	1,160,000		827,541	6,377,541
2033	1,255,000			25,100	1,280,100
	<u>\$14,660,000</u>	<u>\$3,120,000</u>	<u>\$500,000</u>	<u>\$14,608,871</u>	<u>\$32,888,871</u>

**NOTE 16 - SET ASIDES**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2007.

	Textbooks	Capital Improvements
Balance June 30, 2006	(\$464,672)	
Current Year Set Aside Requirement	226,693	\$226,693
Current Year Offsets		(174,651)
Qualifying Expenditures	(353,006)	(114,325)
Reserve Balance June 30, 2007	<u>(\$590,985)</u>	<u>(\$62,283)</u>
Amount Carried Forward to Fiscal Year 2008	<u>(\$590,985)</u>	

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 17 - INTERFUND TRANSFERS**

During fiscal year 2007, the General Fund made transfers to other governmental funds, in the amount of \$85,000, to subsidize various programs in other funds.

**NOTE 18 - DONOR RESTRICTED ENDOWMENTS**

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$27,980, represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$38,914 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The School District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2007, the School District paid \$43,215 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, 22-900 State Route 34, Archbold, Ohio 43502.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)**

**C. Penta Career Center**

The Penta Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of eleven members from the participating School Districts' elected Boards. Board members are appointed for a term of two years to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Educational Service Centers, one each from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Educational Service Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from Penta Career Center, 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools, and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

**E. Northwest Ohio Regional Professional Development Center**

The Northwest Ohio Regional Professional Development Center (RPDC) is a jointly governed organization among the school districts in Defiance, Erie, Fulton, Henry, Lucas, Ottawa, Sandusky, Williams, and Wood counties. The RPDC focuses on the implementation of academic content standards and the deployment of State initiatives. All activities reflect definition of high quality professional development, including job-embedded, connected to strategic goals, sustained, intensive skill building, and measurement of impact on student learning.

The Center is governed by a fifteen member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Northwest Ohio Regional Professional Development Center, 414 Emerald Street, 2<sup>nd</sup> Floor, Toledo, Ohio 43602.



**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)**

**F. Northwest Ohio Special Education Regional Resource Center**

The Northwest Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to provide services to families, educators, and agencies regarding educational law and curriculum and instruction for students with disabilities. The SERRC serves a thirteen county area in Northwest Ohio. The Governing Board consists of superintendents from each of the cooperating School Districts, the fiscal agent superintendent, two parents of children with disabilities, one superintendent of a county board of MR/DD, one representative from a chartered non-public school, one representative from the University of Toledo, one representative from Bowling Green State University, one representative from a community school, and any other representatives from other agencies as designated by the Governing Board or the Ohio Department of Education. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Eastwood Local School District, 4800 Sugar Ridge Road, Pemberville, Ohio 43450.

**NOTE 20 - RELATED ORGANIZATION**

The Weston Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Otsego Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Weston Public Library, PO Box 345, Weston, Ohio 43569.

**NOTE 21 - INSURANCE POOLS**

**A. Wood County Schools Benefit Plan Association**

The Wood County Schools Benefit Plan Association (Association) is a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and the Educational Service Center. The Association is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and other benefits to the employees of the participating entities. Each participating entity's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Association.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Association is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Medical Mutual of Ohio, P.O. Box 943, Toledo, Ohio 43656.

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(Continued)**

**NOTE 21 - INSURANCE POOLS – (CONTINUED)**

**B. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**NOTE 22 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

**B. Litigation**

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

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**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2007**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education:</i>			
Food Donation Program		10.550	
National School Lunch Program	050724-LLP4-2006 050724-LLP4-2007	10.555	\$ 16,613 96,219 <u>112,832</u>
Total U.S. Department of Agriculture			<u><b>112,832</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	050724-C1-S1-2006 050724-C1-S1-2007	84.010	20,242 137,101 <u>157,343</u>
Special Education Grants to States	050724-6BSF-2007	84.027	389,508
Safe and Drug Free Schools and Communities State Grant	050724-DR-S1-2007	84.186	5,264
State Grants for Innovative Programs	050724-C2-S1-2007	84.298	2,889
Education Technology State Grants	050724-TJ-S1-2007	84.318	1,425
Improving Teacher Quality State Grants	050724-TR-S1-2006 050724-TR-S1-2007	84.367	10,415 64,371 <u>74,786</u>
Total U.S. Department of Education			<u><b>631,215</b></u>
<b>Total Federal Awards Expenditures</b>			<u><b>\$ 744,047</b></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ 62,425		\$ 62,425
	\$ 16,613	
	96,219	
	<u>112,832</u>	
<u>62,425</u>	<u>112,832</u>	<u>62,425</u>
	20,242	
	115,024	
	<u>135,266</u>	
	389,508	
	5,264	
	2,889	
	1,425	
	10,245	
	64,371	
	<u>74,616</u>	
	<u>608,968</u>	
<u>\$ 62,425</u>	<u>\$ 721,800</u>	<u>\$ 62,425</u>

**OTSEGO LOCAL SCHOOL DISTRICT**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B – US DEPARTMENT OF AGRICULTURE PROGRAMS**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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



# Mary Taylor, CPA

Auditor of State

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

Otsego Local School District  
Wood County  
18505 Tontogany Creek Road  
P.O. Box 290  
Otsego, Ohio 43565-0290

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated February 25, 2008.

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 25, 2008





# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Otsego Local School District  
Wood County  
18505 Tontogany Creek Road  
Tontogany, Ohio 43565-0290

To the Board of Education:

### Compliance

We have audited the compliance of Otsego Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Mary Taylor, CPA**  
Auditor of State

February 25, 2008

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	National School Lunch Program- CFDA # 10.555  Title I Grants to Local Educational Agencies – CFDA # 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Mary Taylor, CPA**  
Auditor of State

**OTSEGO LOCAL SCHOOL DISTRICT**

**WOOD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 13, 2008**