

**OTTAWA HILLS LOCAL SCHOOL DISTRICT
LUCAS COUNTY**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA

Auditor of State

Board of Trustees
Ottawa Hills Local School District
3600 Indian Road
Toledo, Ohio 43606-2425

We have reviewed the *Independent Auditor's Report* of the Ottawa Hills Local School District, Lucas County, prepared by LublinSussman Group LLP, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2008

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OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statement of the governmental activities, each major fund, and the aggregate remaining fund information of Ottawa Hill Local School District, Lucas County, Ohio, (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund, information of Ottawa Hills Local School District, Lucas County, Ohio, as of June 30, 2006, and the respective changes in financial position and 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 March 10, 2008 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That

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report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deblin Sussman Group LLP

March 10, 2008
Toledo, Ohio

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Unaudited

The discussion and analysis of Ottawa Hills Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- ❑ Net assets increased \$1,040,530, which represents a 18% increase from 2005.
- ❑ General revenues accounted for \$12,448,351 in revenue or 92% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,050,766 or 8% of total revenues of \$13,499,117.
- ❑ The District had \$12,458,587 in expenses related to governmental activities; only \$1,050,766 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12,448,351 were adequate to provide for these programs.
- ❑ The District's General Fund had \$11,642,799 in revenues and \$10,853,879 in expenditures. The General Fund's fund balance increased \$668,280 to \$5,425,117.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Unaudited

Government-wide Statements

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

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

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

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

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

Fund Financial Statements

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

Governmental Funds – The District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2006 compared to 2005.

	Governmental Activities		Increase (Decrease)
	2006	Restated 2005	
Current and other assets	\$17,777,683	\$18,061,473	(\$283,790)
Capital assets, Net	5,231,732	4,933,070	298,662
Total assets	23,009,415	22,994,543	14,872
Long-term debt outstanding	5,702,903	5,902,154	(199,251)
Other liabilities	10,619,746	11,446,153	(826,407)
Total liabilities	16,322,649	17,348,307	(1,025,658)
Net assets			
Invested in capital assets, net of related debt	811,732	268,070	543,662
Restricted	1,106,521	1,223,230	(116,709)
Unrestricted	4,768,513	4,154,936	613,577
Total net assets	\$6,686,766	\$5,646,236	\$1,040,530

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OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 compared to 2005:

	Governmental Activities	
	2006	Restated 2005
Revenues		
Program revenues:		
Charges for Services and Sales	\$375,495	\$591,044
Operating Grants and Contributions	675,271	641,870
Capital Grants and Contributions	0	123,925
General revenues:		
Property Taxes	9,049,998	8,621,623
Grants and Entitlements	2,998,436	2,950,407
Other	399,917	430,917
Total revenues	13,499,117	13,359,786
Program Expenses		
Instruction	7,699,358	7,864,755
Support Services:		
Pupils	530,147	490,739
Instructional Staff	504,717	483,417
Board of Education	21,540	23,296
Administration	852,525	863,236
Fiscal Services	405,798	354,220
Operation and Maintenance of Plant	1,137,728	1,125,258
Pupil Transportation	59,160	45,958
Central	62,761	48,595
Community Services	373,345	361,778
Extracurricular Activities	597,678	538,708
Debt Service:		
Interest and Fiscal Charges	213,830	226,724
Total expenses	12,458,587	12,426,684
Total Change in Net Assets	1,040,530	933,102
Beginning Net Assets - Restated	5,646,236	4,713,134
Ending Net Assets	\$6,686,766	\$5,646,236

Governmental Activities

Net assets of the District's governmental activities increased \$1,040,530. Charges for services and sales had increased substantially in fiscal 2005 as a result of fees received from participants of the Agora 2005 program, which is a curriculum enhancement program. This did not occur in fiscal 2006 and resulted in the decrease in charges for services and sales. Property taxes increased as a result of a 5.7 mill operating levy passed in November 2004.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

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

Property taxes made up 67% of revenues for governmental activities for Ottawa Hills Local Schools in fiscal year 2006. The District's reliance upon tax revenues is demonstrated by the following graph:

Revenue Sources	2006	Percent of Total
General Grants	\$2,998,436	22.22%
Program Revenues	1,050,766	7.78%
General Tax Revenues	9,049,998	67.04%
General Other	399,917	2.96%
Total Revenue	\$13,499,117	100.00%

A pie chart illustrating the distribution of revenue sources. The largest slice is General Tax Revenues at 67.04%, followed by General Grants at 22.22%, Program Revenues at 7.78%, and General Other at 2.96%.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$6,644,748, which is greater than last year's balance of \$6,117,277. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Restated Fund Balance June 30, 2005	Increase (Decrease)
General	\$5,425,117	\$4,756,837	\$668,280
Other Governmental	1,219,631	1,360,440	(140,809)
Total	\$6,644,748	\$6,117,277	\$527,471

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

	2006 Revenues	2005 Revenues	Increase (Decrease)
Taxes	\$8,249,421	\$7,639,597	\$609,824
Tuition	80,608	36,144	44,464
Transportation Fees	2,731	1,904	827
Investment Earnings	306,593	173,050	133,543
Extracurricular Activities	53,212	50,296	2,916
Class Materials and Fees	44,647	46,105	(1,458)
Intergovernmental - State	2,890,315	2,839,846	50,469
All Other Revenue	15,272	3,939	11,333
Total	\$11,642,799	\$10,790,881	\$851,918

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

Unaudited

General Fund revenues in 2006 increased approximately 8% compared to fiscal year 2005. Property taxes increased as a result of a 5.7 mill operating levy passed in November 2004. Increases in short term interest rates caused the increase in investment earnings. Tuition receipts increased due to an increase in the number of non-resident tuition students.

	2006 Expenditures	2005 Expenditures	Increase (Decrease)
Instruction	\$7,179,649	\$6,859,093	\$320,556
Supporting Services:			
Pupils	496,894	462,241	34,653
Instructional Staff	397,174	383,195	13,979
Board of Education	21,540	23,296	(1,756)
Administration	806,259	779,747	26,512
Fiscal Services	392,137	354,487	37,650
Operation & Maintenance of Plant	1,126,613	1,090,522	36,091
Pupil Transportation	51,683	42,884	8,799
Central	56,761	42,595	14,166
Community Services	2,001	2,000	1
Extracurricular Activities	323,168	303,698	19,470
Total	\$10,853,879	\$10,343,758	\$510,121

The expenditures increased \$510,121 or 5% compared to the prior year mostly due to an increase in instruction expenditures. Instructional expenditures increased due to increases in health insurance, textbook purchases and student intervention services.

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

During the course of fiscal year 2006 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$11.6 million, above original budget estimates of \$11.3 million. The General Fund had an adequate fund balance to cover expenditures.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006 the District had \$5,231,732 net of accumulated depreciation invested in land, construction in progress, improvements, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$743,629	\$743,629	\$0
Construction in Progress	0	298,977	(298,977)
Land Improvements	837,327	837,327	0
Buildings and Improvements	7,601,680	6,818,503	783,177
Machinery/Equipment and Furniture/Fixtures	854,825	795,476	59,349
Vehicles	146,224	131,966	14,258
Less: Accumulated Depreciation	(4,951,953)	(4,692,808)	(259,145)
Totals	\$5,231,732	\$4,933,070	\$298,662

The primary increase occurred in buildings and improvements. This was the result of an elementary school roof replacement.

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

Debt

At June 30, 2006, the District had \$4.4 million in bonds outstanding, \$265,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2006:

	2006	2005
Governmental Activities:		
General Obligation Bonds:		
School Improvement	\$4,420,000	\$4,665,000
Compensated Absences	1,282,903	1,237,154
Totals	\$5,702,903	\$5,902,154

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2005, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006*

Unaudited

ECONOMIC FACTORS

The Ottawa Hills Local School District relies upon local property taxes and state foundation monies to fund its operations. In fiscal year 2006 the District received approximately 70.7% of its revenues from local property taxes, 15.5% from the state foundation program, 9.5% from the Homestead/Rollback exemption legislation, and the remaining 4.3% from other local sources. The District real estate value consists of 95.7% residential real estate, 3.2% commercial real estate, and 1.1% tangible personal property/public utilities personal property.

The District last passed a 5.7 mill continuing operating levy in November 2004 by a 64% margin. The District passed a 1.5 mill permanent improvement levy in November 2003 by a 74% margin. The permanent improvement levy will be levied for five years.

The District had a 1.0 permanent improvement levy expiring in December of 2006. The District has placed a 1.5 mill permanent improvement levy on the November 2006 ballot. The length of this permanent improvement levy will be five years, and will expire in December 2011. The District voters approved this levy on November 7, 2006 by a 70% margin.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bradley Browne, Treasurer of Ottawa Hills Local School District.

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OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Net Assets June 30, 2006

	<u>Governmental Activities</u>
Assets:	
Cash and Cash Equivalents	\$ 3,044,669
Investments	4,343,348
Receivables:	
Taxes	10,279,178
Accounts	1,517
Intergovernmental	1,929
Interest	29,843
Prepaid Items	77,199
Capital Assets, Net	<u>5,231,732</u>
Total Assets	<u>23,009,415</u>
Liabilities:	
Accounts Payable	15,338
Accrued Wages and Benefits	778,877
Intergovernmental Payable	275,432
Deferred Revenue - Taxes	9,443,569
Accrued Interest Payable	68,955
Compensated Absences Payable	37,575
Long Term Liabilities:	
Due Within One Year	334,728
Due in More Than One Year	<u>5,368,175</u>
Total Liabilities	<u>16,322,649</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	811,732
Restricted For:	
Capital Projects	240,035
Debt Service	774,213
Other Purposes	92,273
Unrestricted	<u>4,768,513</u>
Total Net Assets	<u>\$ 6,686,766</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Activities For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 7,699,358	\$ 152,974	\$ 119,767	\$ (7,426,617)
Support Services:				
Pupils	530,147	0	26,514	(503,633)
Instructional Staff	504,717	0	99,960	(404,757)
Board of Education	21,540	0	0	(21,540)
Administration	852,525	0	41,972	(810,553)
Fiscal Services	405,798	0	0	(405,798)
Operation and Maintenance of Plant	1,137,728	1,807	9,714	(1,126,207)
Pupil Transportation	59,160	2,731	0	(56,429)
Central	62,761	0	6,000	(56,761)
Community Services	373,345	0	371,344	(2,001)
Extracurricular Activities	597,678	217,983	0	(379,695)
Interest and Fiscal Charges	213,830	0	0	(213,830)
Total Governmental Activities	\$ 12,458,587	\$ 375,495	\$ 675,271	(11,407,821)
General Revenues				
Property Taxes Levied for:				
General Purposes				8,257,167
Debt Service				429,437
Capital Outlay				363,394
Grants and Entitlements not Restricted to Specific Programs				2,998,436
Investment Earnings				307,828
Miscellaneous				92,089
Total General Revenues				12,448,351
Change in Net Assets				1,040,530
Net Assets Beginning of Year - Restated				5,646,236
Net Assets End of Year				\$ 6,686,766

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 1,830,207	\$ 1,214,462	\$ 3,044,669
Investments	4,343,348	0	4,343,348
Receivables:			
Taxes	9,370,431	908,747	10,279,178
Accounts	1,517	0	1,517
Intergovernmental	1,191	738	1,929
Interest	29,843	0	29,843
Interfund Loans Receivable	339	189	528
Prepaid Items	77,199	0	77,199
Total Assets	\$ 15,654,075	\$ 2,124,136	\$ 17,778,211
Liabilities:			
Accounts Payable	\$ 8,807	\$ 6,531	\$ 15,338
Accrued Wages and Benefits	778,877	0	778,877
Intergovernmental Payable	274,982	450	275,432
Interfund Loans Payable	189	339	528
Deferred Revenue - Taxes	9,119,279	897,185	10,016,464
Deferred Revenue	9,249	0	9,249
Compensated Absences Payable	37,575	0	37,575
Total Liabilities	10,228,958	904,505	11,133,463
Fund Balances:			
Reserved for Encumbrances	58,736	248,077	306,813
Reserved for Prepaid Items	77,199	0	77,199
Reserved for Debt Service	0	808,978	808,978
Reserved for Property Taxes	251,152	11,562	262,714
Unreserved, Undesignated in:			
General Fund	5,038,030	0	5,038,030
Special Revenue Funds	0	140,146	140,146
Capital Projects Funds	0	10,868	10,868
Total Fund Balances	5,425,117	1,219,631	6,644,748
Total Liabilities and Fund Balances	\$ 15,654,075	\$ 2,124,136	\$ 17,778,211

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2006

Total Governmental Fund Balances	\$ 6,644,748
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	5,231,732
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	582,144
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds Payable	(4,420,000)
Accrued Interest Payable	(68,955)
Compensated Absences Payable	(1,282,903)
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 6,686,766</u></u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Local Sources:			
Taxes	\$ 8,249,421	\$ 791,132	\$ 9,040,553
Tuition	80,608	0	80,608
Transportation Fees	2,731	0	2,731
Investment Earnings	306,593	442	307,035
Extracurricular Activities	53,212	164,771	217,983
Class Materials and Fees	44,647	27,719	72,366
Intergovernmental - State	2,890,315	495,556	3,385,871
Intergovernmental - Federal	0	275,610	275,610
All Other Revenue	15,272	86,452	101,724
Total Revenue	11,642,799	1,841,682	13,484,481
Expenditures:			
Current:			
Instruction	7,179,649	341,832	7,521,481
Supporting Services:			
Pupils	496,894	29,090	525,984
Instructional Staff	397,174	101,599	498,773
Board of Education	21,540	0	21,540
Administration	806,259	42,627	848,886
Fiscal Services	392,137	10,439	402,576
Operation and Maintenance of Plant	1,126,613	486,207	1,612,820
Pupil Transportation	51,683	0	51,683
Central	56,761	6,000	62,761
Community Services	2,001	371,344	373,345
Extracurricular Activities	323,168	254,653	577,821
Debt Service:			
Principal Retirement	0	245,000	245,000
Interest & Fiscal Charges	0	218,738	218,738
Total Expenditures	10,853,879	2,107,529	12,961,408
Excess (Deficiency) of Revenues Over Expenditures	788,920	(265,847)	523,073
Other Financing Sources (Uses):			
Transfers In	0	124,000	124,000
Transfers Out	(124,000)	0	(124,000)
Refund of Prior Year Expenditures	3,360	1,038	4,398
Total Other Financing Sources (Uses)	(120,640)	125,038	4,398
Net Change in Fund Balance	668,280	(140,809)	527,471
Fund Balances at Beginning of Year - Restated	4,756,837	1,360,440	6,117,277
Fund Balances End of Year	\$ 5,425,117	\$ 1,219,631	\$ 6,644,748

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 527,471

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	570,545	
Depreciation Expense	<u>(270,076)</u>	300,469

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets net of proceeds received. (1,807)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 10,238

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities. 245,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 4,908

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

Compensated Absences	<u>(45,749)</u>
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Change in Net Assets of Governmental Activities \$ 1,040,530

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 8,207,178	\$ 8,187,635	\$ 8,187,639	\$ 4
Tuition	22,048	80,608	80,608	0
Transportation Fees	1,300	2,431	2,431	0
Investment Earnings	175,000	288,000	299,492	11,492
Extracurricular Activities	50,000	52,638	52,637	(1)
Class Material and Fees	40,400	45,021	45,023	2
Intergovernmental - State	2,774,864	2,890,314	2,890,315	1
All Other Revenues	2,425	15,251	15,251	0
Total Revenues	<u>11,273,215</u>	<u>11,561,898</u>	<u>11,573,396</u>	<u>11,498</u>
Expenditures:				
Current:				
Instruction	7,467,980	7,496,596	7,160,089	336,507
Support Services:				
Pupils	503,890	515,506	492,366	23,140
Instructional Staff	394,556	416,234	397,550	18,684
Board of Education	29,800	23,615	22,555	1,060
Administration	852,727	844,323	806,423	37,900
Fiscal Services	412,895	411,027	392,577	18,450
Operation and Maintenance of Plant	1,198,030	1,217,284	1,162,643	54,641
Pupil Transportation	59,045	52,811	50,440	2,371
Central	62,000	59,429	56,761	2,668
Community Services	2,000	2,095	2,001	94
Extracurricular Activities	315,263	334,184	319,183	15,001
Total Expenditures	<u>11,298,186</u>	<u>11,373,104</u>	<u>10,862,588</u>	<u>510,516</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(24,971)	188,794	710,808	522,014
Other Financing Sources (Uses):				
Transfers Out	(154,000)	(124,000)	(124,000)	0
Advances In	0	189	189	0
Refund of Prior Year's Expenditures	500	3,359	3,360	1
Total Other Financing Sources (Uses):	<u>(153,500)</u>	<u>(120,452)</u>	<u>(120,451)</u>	<u>1</u>
Net Change in Fund Balance	(178,471)	68,342	590,357	522,015
Fund Balance at Beginning of Year	5,453,245	5,453,245	5,453,245	0
Prior Year Encumbrances	92,015	92,015	92,015	0
Fund Balance at End of Year	<u>\$ 5,366,789</u>	<u>\$ 5,613,602</u>	<u>\$ 6,135,617</u>	<u>\$ 522,015</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust Funds	Student Managed Activity Fund	Total
Assets:			
Cash and Cash Equivalents	\$ 32,864	\$ 33,257	\$ 66,121
Total Assets	<u>32,864</u>	<u>33,257</u>	<u>66,121</u>
Liabilities:			
Due to Students	0	33,257	33,257
Total Liabilities	<u>0</u>	<u>33,257</u>	<u>33,257</u>
Net Assets:			
Unrestricted	32,864	0	32,864
Total Net Assets	<u>\$ 32,864</u>	<u>\$ 0</u>	<u>\$ 32,864</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006***

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Private Donations	\$ 1,500
Total Contributions	<u>1,500</u>
Investment Earnings:	
Interest	<u>1,536</u>
Total Investment Earnings	<u>1,536</u>
Total Additions	<u>3,036</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>15,587</u>
Total Deductions	<u>15,587</u>
Change in Net Assets	(12,551)
Net Assets at Beginning of Year - Restated	<u>45,415</u>
Net Assets End of Year	<u>\$ 32,864</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 35 noncertified, 78 certified teaching personnel and 8 administrative employees providing education to 1,002 students.

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

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

B. Basis of Presentation - Fund Accounting

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

The following fund types are used by the District:

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

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

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

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

Current property taxes measurable at June 30, 2006, and which are not intended to finance fiscal 2006 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 30 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2006 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

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

E. Budgetary Process

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

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

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year. The Lucas County Budget Commission waived the tax budget filing requirement for fiscal year 2006.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to January 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary schedule reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2006.

3. Appropriations

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

4. Lapsing of Appropriations

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis schedules for the General Fund:

	General Fund
GAAP Basis (as reported)	\$668,280
Increase (Decrease):	
Accrued Revenues	
at June 30, 2006,	
received during FY 2007	(240,960)
Accrued Revenues	
at June 30, 2005,	
received during FY 2006	171,072
Accrued Expenditures	
at June 30, 2006,	
paid during FY 2007	1,100,430
Accrued Expenditures	
at June 30, 2005,	
paid during FY 2006	(1,027,581)
FY 2005 Prepaids for FY 2006	68,086
FY 2006 Prepaids for FY 2007	(77,199)
Encumbrances Outstanding	(71,771)
Budget Basis	\$590,357

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 3, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts which are reported at cost, which approximates fair value. See Note 3, "Cash, Cash Equivalents and Investments." During fiscal year 2006, investments were limited to federal agency securities.

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2006. 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, 2006.

Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$306,593. Of that amount, \$55,192 was the amount allocated by other funds.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

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

2. Depreciation

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

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

J. Long-Term Obligations

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

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

L. Net Assets

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

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

M. Pensions

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Transactions

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

O. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for debt service, property taxes, prepaid items, and encumbered amounts, which have not been accrued at year end.

P. Estimates

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had no extraordinary or special items during fiscal year 2006.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balance

The fund deficit at June 30, 2006 of \$437 in the Title VI-B Fund (special revenue fund) arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The deficit does not exist under the budgetary/cash basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*,” GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation*,” and GASB Statement No. 47, “*Accounting for Termination Benefits*.”

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006***

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

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$2,231,686 and the bank balance was \$2,481,021. Federal depository insurance covered \$100,000 of the bank balance and \$2,381,021 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$2,381,021</u>
Total Balance	<u><u>\$2,381,021</u></u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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

B. Investments

The District's investments at June 30, 2006 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$879,104	AAAm ¹	\$879,104	\$0	\$0
FNMA	2,715,234	AAA ^{1,2}	1,971,173	744,061 ^a	0
FHLB	1,628,114	AAA ^{1,2}	989,143	273,884 ^b	365,087
Total Investments	<u>\$5,222,452</u>		<u>\$3,839,420</u>	<u>\$1,017,945</u>	<u>\$365,087</u>

¹ Standard & Poor's

² Moody's Investor Service

^a Call Option – Callable quarterly beginning February 2006, May 2006 and thereafter.

^b Call Option – Callable quarterly beginning August 2006 and thereafter.

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

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer. Of the District's total investments, 52% are FNMA, 31% are FHLB and 17% are STAR Ohio.

C. Reconciliation of Cash, Cash Equivalents and Investments

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

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$3,110,790	\$4,343,348
STAR Ohio	(879,104)	879,104
Per GASB Statement No. 3	<u>\$2,231,686</u>	<u>\$5,222,452</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 4 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2001. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Ottawa Hills Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2006, upon which the 2005 levies were based, were as follows:

	2005 Second Half <u>Collections</u>	2006 First Half <u>Collections</u>
Agricultural/Residential and Other Real Estate	\$175,021,810	\$175,992,450
Public Utility Personal	1,856,320	1,671,930
Tangible Personal Property	<u>207,580</u>	<u>200,340</u>
Total Assessed Value	<u>\$177,085,710</u>	<u>\$177,864,720</u>
Tax rate per \$1,000 of assessed valuation	\$120.35	\$120.35

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts, interest and intergovernmental receivables. All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 6 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2006:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$339	\$189
Other Governmental Funds	189	339
Totals	<u>\$528</u>	<u>\$528</u>

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2006:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$124,000
Other Governmental Funds	124,000	0
Total All Funds	<u>\$124,000</u>	<u>\$124,000</u>

All transfers made in fiscal year 2006 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2006:

Historical Cost:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
Capital assets not being depreciated:				
Land	\$743,629	\$0	\$0	\$743,629
Construction in Progress	298,977	(298,977)	0	0
Capital assets being depreciated:				
Land Improvements	837,327	0	0	837,327
Buildings and Improvements	6,818,503	783,177	0	7,601,680
Machinery/Equipment and Furniture/Fixtures	795,476	63,085	(3,736)	854,825
Vehicles	131,966	23,260	(9,002)	146,224
Total Cost	<u>\$9,625,878</u>	<u>\$570,545</u>	<u>(\$12,738)</u>	<u>\$10,183,685</u>

Accumulated Depreciation:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
Land Improvements	(\$450,978)	(\$34,753)	\$0	(\$485,731)
Buildings and Improvements	(3,336,638)	(172,662)	0	(3,509,300)
Machinery/Equipment and Furniture/Fixtures	(828,425)	(54,215)	1,930	(880,710)
Vehicles	(76,767)	(8,446)	9,001	(76,212)
Total Depreciation	<u>(\$4,692,808)</u>	<u>(\$270,076) *</u>	<u>\$10,931</u>	<u>(\$4,951,953)</u>
Net Value:	<u>\$4,933,070</u>			<u>\$5,231,732</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$197,797
Support Services:	
Instructional Staff	972
Administration	2,700
Fiscal Services	1,328
Operations & Maintenance of Plant	26,952
Pupil Transportation	7,477
Extracurricular Activities	32,850
Total Depreciation Expense	<u>\$270,076</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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

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

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

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2006, 10.58% was allocated to fund the pension benefit and 3.42% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$173,856, \$169,188, and \$155,436, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. The portion of the 2006 employer contribution rate that was used to fund health care for the year 2006 was 3.42%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund health care benefits, including the surcharge amounted to \$48,895.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2006 were \$158,751,207. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 59,492.

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

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

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2006, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$770,568, \$706,956, and \$693,852, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2006, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$55,041 for the District. The balance of the Health Care Stabilization Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, the net health care costs paid by STRS were \$282,743,000. There were 119,184 eligible benefit recipients.

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2006 are as follows:

		Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006	Amount Due Within One Year
Governmental Activities:						
General Obligation Bonds:						
1998 School Improvement	4.75%	\$4,665,000	\$0	(\$245,000)	\$4,420,000	\$265,000
Compensated Absences		1,237,154	1,282,903	(1,237,154)	1,282,903	69,728
Total Long-Term Obligations		<u>\$5,902,154</u>	<u>\$1,282,903</u>	<u>(\$1,482,154)</u>	<u>\$5,702,903</u>	<u>\$334,728</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2006, follows:

Years	General Obligation Bonds	
	Principal	Interest
2007	\$265,000	\$206,863
2008	280,000	194,038
2009	295,000	180,619
2010	315,000	166,369
2011	335,000	151,169
2012-2016	1,975,000	494,594
2017-2018	955,000	57,476
Totals	\$4,420,000	\$1,451,128

NOTE 11 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2006, the reserve activity (cash-basis) was as follows:

	Textbook	Capital	Total
	Reserve	Acquisition Reserve	
Set-aside Cash Balance as of June 30, 2005	(\$468,243)	\$0	(\$468,243)
Current Year Set-Aside Requirement	149,221	149,221	298,442
Qualifying Disbursements	(296,662)	(883,283)	(1,179,945)
Total	(\$615,684)	(\$734,062)	(\$1,349,746)
Cash Balance Carried Forward to FY 2007	(\$615,684)	\$0	(\$615,684)

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 12 - CONSTRUCTION COMMITMENTS

As of June 30, 2006, the District had the following commitment with respect to capital projects:

<u>Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
High School Roof Replacement	\$226,500	September 2006
Total	<u>\$226,500</u>	

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

Northwest Ohio Computer Association (NWOCA) - The District is a participant in the Northwest Ohio Computer Association (NWOCA) which is a computer consortium. NWOCA is an association of twenty-eight educational entities, primarily school districts, located in Henry, Fulton, Defiance, Williams, Lucas and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. NWOCA is governed by its participating members, which consists of a representative from each member entity and a representative from the fiscal agent. Financial information can be obtained from the Northwest Ohio Computer Association, Duane Baker, Executive Director, 22-900 State Route 34, Archbold, Ohio 43502.

Northern Buckeye Council - The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were \$67,244. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2006 the District contracted with several different insurance providers for various insurance coverages, as follows:

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

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

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

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 15 – CONTINGENCIES (Continued)

B. State School Funding

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

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

NOTE 16 – OPERATING LEASE

The District entered into an operating lease in fiscal year 2002 with the Northwest Ohio Computer Association (NWOCA) for a high bandwidth dedicated connection to NWOCA for a period of fifteen (15) years. The District elected a payment plan over 15 years, with an annual payment of \$31,000. Lease payments totaled \$31,000 for the year. In addition, the District entered into an operating lease in fiscal year 2004 with Perry Corporation for the use of nine copiers for a period of five years. There is no minimum monthly payment because the cost is calculated based on usage. Lease expense amounted to \$48,190 for the fiscal year 2006.

The following is a schedule of future minimum payments under the operating lease as of June 30, 2006:

Fiscal Year Ending June 30,	
2007	\$ 31,000
2008	31,000
2009	31,000
2010	31,000
2011	31,000
2012 - Thereafter	<u>155,000</u>
Total Minimum Lease Payments	<u>\$ 310,000</u>

NOTE 17 – RESTATEMENT OF NET ASSETS

Certain adjustments were necessary to account for the reclassification of portions of the private purpose trust funds. As a result of the restatement, the private purpose trust funds beginning balance decreased \$11,732 to \$45,415 and the other governmental funds beginning balance increased \$11,732 to a balance of \$1,360,440. The District's Governmental Activities net assets at June 30, 2005 increased \$11,732 to a restated amount of \$5,646,236. This restatement was necessary to reclass certain funds that support District programs as required by GASB 34.

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining funds information of Ottawa Hills Local School District, Lucas County, Ohio, (the School District) as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 10, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

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AICPA—Private Companies Practice Section
Ohio Society of Certified Public Accountants

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2006-001 to be a material weakness.

We also noted certain matters that we reported to management and the School Board in a separate letter dated March 10, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain matters that we reported to management and the School Board in a separate letter dated March 10, 2008.

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

Delvin Sussman Group LLP

March 10, 2008
Toledo, Ohio

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Findings and Responses
Fiscal Year Ended June 30, 2006**

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

FINDING NUMBER 2006-001

Material Weakness – Fixed Asset Controls

The School District has adopted a fixed asset policy and has implemented procedures to assist in recording building improvements and construction in progress as capital items, however, certain material costs were recorded twice, resulting in an overstatement of fixed assets by approximately \$525,000.

To prevent the overstatement of fixed assets, we recommend the recording of fixed asset additions be supported by an expenditure or payable incurred during the year, and not recorded from the depreciation schedule which reflects when the asset was placed in service.

Response: Management will annually determine which assets on the depreciation schedule were paid for in the current year and compare them to the fixed asset additions in the financial statements.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Prior Audit Findings
Fiscal Year Ended June 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	17 CFR Section 240.15c2-12, filing of annual report with NRMSIRS	Yes	
2005-002	Revised Code § 5705.41(B), expenditures exceeding appropriations	Partially	Immaterial instances of noncompliance are separately reported to management and the School Board.
2005-003	Revised Code § 5705.41(D), prior certification by Treasurer	Partially	Immaterial instances of noncompliance are separately reported to management and the School Board.
2005-004	Material Weakness – Fixed Asset Controls	Partially	A policy has been adopted and certain procedures have been implemented. A finding related to additional procedures has been reissued as finding number 2006-001.



Mary Taylor, CPA
Auditor of State

OTTAWA HILLS LOCAL SCHOOL DISTRICT

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 13, 2008**