

**OTTAWA HILLS LOCAL SCHOOL DISTRICT
LUCAS COUNTY**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007



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, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "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, 2007, 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, 2007, 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

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agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

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.

Seiblin 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, 2007*

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, 2007. 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 2007 are as follows:

- ❑ Net assets increased \$656,197, which represents a 10% increase from 2006.
- ❑ General revenues accounted for \$12,834,725 in revenue or 92% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,145,473 or 8% of total revenues of \$13,980,198.
- ❑ The District had \$13,324,001 in expenses related to governmental activities; only \$1,145,473 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12,834,725 were adequate to provide for these programs.
- ❑ The District's General Fund had \$11,757,810 in revenues and \$11,496,964 in expenditures. The General Fund's fund balance increased \$114,581 to \$5,539,698.

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, 2007*

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, 2007*

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 2007 compared to 2006.

	Governmental Activities		Increase (Decrease)
	2007	2006	
Current and other assets	\$17,741,759	\$17,777,683	(\$35,924)
Capital assets, Net	5,523,530	5,231,732	291,798
Total assets	23,265,289	23,009,415	255,874
Long-term debt outstanding	5,538,988	5,702,903	(163,915)
Other liabilities	10,383,338	10,619,746	(236,408)
Total liabilities	15,922,326	16,322,649	(400,323)
Net assets			
Invested in capital assets, net of related debt	1,368,530	811,732	556,798
Restricted	1,007,343	1,106,521	(99,178)
Unrestricted	4,967,090	4,768,513	198,577
Total net assets	\$7,342,963	\$6,686,766	\$656,197

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OTTAWA HILLS LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2007 compared to 2006:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Revenues			
Program Revenues:			
Charges for Services and Sales	\$464,936	\$375,495	\$89,441
Operating Grants and Contributions	680,537	675,271	5,266
Total Program Revenues	1,145,473	1,050,766	94,707
General Revenues:			
Property Taxes	9,236,832	9,049,998	186,834
Intergovernmental, Unrestricted	2,997,875	2,998,436	(561)
Other	600,018	399,917	200,101
Total General Revenues	12,834,725	12,448,351	386,374
Total Revenues	13,980,198	13,499,117	481,081
Program Expenses			
Instruction	8,319,948	7,699,358	620,590
Support Services:			
Pupils	573,690	530,147	43,543
Instructional Staff	523,853	504,717	19,136
Board of Education	28,273	21,540	6,733
Administration	930,830	852,525	78,305
Fiscal Services	378,906	405,798	(26,892)
Operation and Maintenance of Plant	1,298,154	1,137,728	160,426
Pupil Transportation	44,922	59,160	(14,238)
Central	29,356	62,761	(33,405)
Community Services	390,205	373,345	16,860
Extracurricular Activities	603,278	597,678	5,600
Interest and Fiscal Charges	202,586	213,830	(11,244)
Total Expenses	13,324,001	12,458,587	865,414
Total Change in Net Assets	656,197	1,040,530	(384,333)
Beginning Net Assets	6,686,766	5,646,236	1,040,530
Ending Net Assets	\$7,342,963	\$6,686,766	\$656,197

Governmental Activities

Net assets of the District's governmental activities increased \$656,197. Property taxes increased due to increases in property valuations. Other revenue increased mostly due to public school support donations and increases in investment earnings. Increases in salaries and health care costs contributed to the increase in instruction, while operation and maintenance of plant increased due to increases in costs for repairs and supplies.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

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

Property taxes made up 66% of revenues for governmental activities for Ottawa Hills Local Schools in fiscal year 2007. The District's reliance upon tax revenues is demonstrated by the following graph:

Revenue Sources	2007	Percent of Total
Intergovernmental, Unrestricted	\$2,997,875	21.45%
Program Revenues	1,145,473	8.19%
General Tax Revenues	9,236,832	66.07%
General Other	600,018	4.29%
Total Revenue	\$13,980,198	100.00%

A pie chart illustrating the distribution of revenue sources. The largest slice is General Tax Revenues at 66.07%, followed by Intergovernmental, Unrestricted at 21.45%, Program Revenues at 8.19%, and General Other at 4.29%.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$6,657,059, which is more than last year's balance of \$6,644,748. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)
General	\$5,539,698	\$5,425,117	\$114,581
Other Governmental	1,117,361	1,219,631	(102,270)
Total	\$6,657,059	\$6,644,748	\$12,311

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:

	2007 Revenues	2006 Revenues	Increase (Decrease)
Taxes	\$8,196,121	\$8,249,421	(\$53,300)
Tuition	121,331	80,608	40,723
Transportation Fees	2,271	2,731	(460)
Investment Earnings	435,200	306,593	128,607
Extracurricular Activities	57,529	53,212	4,317
Class Materials and Fees	46,114	44,647	1,467
Intergovernmental - State	2,882,892	2,890,315	(7,423)
All Other Revenue	16,352	15,272	1,080
Total	\$11,757,810	\$11,642,799	\$115,011

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Unaudited

General Fund revenues in 2007 increased approximately 1% compared to fiscal year 2006. Tuition receipts increased due to an increase in the number of non-resident tuition students. Increases in investment earnings were the result of higher invested balances.

	2007 Expenditures	2006 Expenditures	Increase (Decrease)
Instruction	\$7,636,610	\$7,179,649	\$456,961
Supporting Services:			
Pupils	525,144	496,894	28,250
Instructional Staff	408,661	397,174	11,487
Board of Education	28,273	21,540	6,733
Administration	889,319	806,259	83,060
Fiscal Services	364,455	392,137	(27,682)
Operation & Maintenance of Plant	1,245,950	1,126,613	119,337
Pupil Transportation	37,445	51,683	(14,238)
Central	23,356	56,761	(33,405)
Community Services	2,000	2,001	(1)
Extracurricular Activities	335,751	323,168	12,583
Total	\$11,496,964	\$10,853,879	\$643,085

Expenditures increased \$643,085 or 6% compared to the prior year mostly due to an increase in instruction and operation and maintenance of plant. Increases in salaries and health care costs contributed to the increase in instruction, while operation and maintenance of plant increased due to increases in costs for repairs and supplies.

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 2007 the District amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue was \$11.7 million, above original budget estimates of \$11.5 million due mostly to increases in investment earnings. Actual budget basis revenue was equal to final estimates. 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, 2007*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007 the District had \$5,523,530 net of accumulated depreciation invested in land, construction in progress, improvements, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2007 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Land	\$743,629	\$743,629	\$0
Construction in Progress	191,999	0	191,999
Land Improvements	912,442	837,327	75,115
Buildings and Improvements	7,830,880	7,601,680	229,200
Machinery/Equipment and Furniture/Fixtures	924,857	854,825	70,032
Vehicles	164,183	146,224	17,959
Less: Accumulated Depreciation	(5,244,460)	(4,951,953)	(292,507)
Totals	\$5,523,530	\$5,231,732	\$291,798

The primary increase occurred in buildings and improvements. This was the result of a roof replacement at the high school.

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

Debt

At June 30, 2007, the District had \$4.2 million in bonds outstanding, \$280,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2007 and 2006:

	2007	2006
Governmental Activities:		
General Obligation Bonds:		
School Improvement	\$4,155,000	\$4,420,000
Compensated Absences	1,383,988	1,282,903
Totals	\$5,538,988	\$5,702,903

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, 2007, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 11.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007*

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 2007 the District received approximately 69.51% of its revenues from local property taxes, 14.58% from the state foundation program, 10.0% from the Homestead/Rollback exemption legislation, and the remaining 5.91% from other local sources. The District real estate value consists of 95.85% residential real estate, 3.25% commercial real estate, and 0.9% 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. . A 5.5 mill continuing operating levy will be on the November 2007 ballot. The Lucas County Auditor has projected the 5.5 mill operating levy will generate \$1,031,300 annually. 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, expiring in 2008. The District passed a second 1.5 mill permanent improvement levy in November 2006 by a 71% margin. The November 2006 permanent improvement will be levied for five years, expiring in 2011.

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, 2007*

	<u>Governmental Activities</u>
Assets:	
Cash and Cash Equivalents	\$ 2,509,058
Investments	4,840,975
Receivables:	
Taxes	10,256,947
Accounts	1,130
Interest	49,851
Prepaid Items	83,798
Capital Assets, Net	<u>5,523,530</u>
Total Assets	<u>23,265,289</u>
Liabilities:	
Accounts Payable	27,314
Accrued Wages and Benefits	833,473
Intergovernmental Payable	264,091
Deferred Revenue - Taxes	9,186,866
Accrued Interest Payable	64,679
Compensated Absences Payable	6,915
Long Term Liabilities:	
Due Within One Year	364,688
Due in More Than One Year	<u>5,174,300</u>
Total Liabilities	<u>15,922,326</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,368,530
Restricted For:	
Capital Projects	125,640
Debt Service	824,216
Other Purposes	57,487
Unrestricted	<u>4,967,090</u>
Total Net Assets	<u>\$ 7,342,963</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction	\$ 8,319,948	\$ 199,046	\$ 115,223	\$ (8,005,679)
Support Services:				
Pupils	573,690	0	29,597	(544,093)
Instructional Staff	523,853	0	92,869	(430,984)
Board of Education	28,273	0	0	(28,273)
Administration	930,830	0	38,747	(892,083)
Fiscal Services	378,906	0	0	(378,906)
Operation and Maintenance of Plant	1,298,154	1,537	10,462	(1,286,155)
Pupil Transportation	44,922	2,271	0	(42,651)
Central	29,356	0	6,000	(23,356)
Community Services	390,205	0	387,639	(2,566)
Extracurricular Activities	603,278	262,082	0	(341,196)
Interest and Fiscal Charges	202,586	0	0	(202,586)
Total Governmental Activities	\$ 13,324,001	\$ 464,936	\$ 680,537	(12,178,528)
General Revenues				
Property Taxes Levied for:				
General Purposes				8,346,051
Debt Service				462,023
Capital Outlay				428,758
Intergovernmental, Unrestricted				2,997,875
Investment Earnings				448,383
Miscellaneous				151,635
Total General Revenues				12,834,725
Change in Net Assets				656,197
Net Assets Beginning of Year				6,686,766
Net Assets End of Year				\$ 7,342,963

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 1,416,056	\$ 1,093,002	\$ 2,509,058
Investments	4,840,975	0	4,840,975
Receivables:			
Taxes	9,226,914	1,030,033	10,256,947
Accounts	1,130	0	1,130
Interest	49,851	0	49,851
Interfund Loans Receivable	339	1,389	1,728
Prepaid Items	83,798	0	83,798
Total Assets	\$ 15,619,063	\$ 2,124,424	\$ 17,743,487
Liabilities:			
Accounts Payable	\$ 20,503	\$ 6,811	\$ 27,314
Accrued Wages and Benefits	833,119	354	833,473
Intergovernmental Payable	263,486	605	264,091
Interfund Loans Payable	189	1,539	1,728
Deferred Revenue - Taxes	8,933,906	997,754	9,931,660
Deferred Revenue	21,247	0	21,247
Compensated Absences Payable	6,915	0	6,915
Total Liabilities	10,079,365	1,007,063	11,086,428
Fund Balances:			
Reserved for Encumbrances	15,280	81,277	96,557
Reserved for Prepaid Items	83,798	0	83,798
Reserved for Debt Service	0	834,355	834,355
Reserved for Property Taxes	293,008	32,279	325,287
Unreserved, Undesignated in:			
General Fund	5,147,612	0	5,147,612
Special Revenue Funds	0	148,664	148,664
Capital Projects Funds	0	20,786	20,786
Total Fund Balances	5,539,698	1,117,361	6,657,059
Total Liabilities and Fund Balances	\$ 15,619,063	\$ 2,124,424	\$ 17,743,487

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, 2007

Total Governmental Fund Balances	\$ 6,657,059
<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.	5,523,530
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	766,041
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	(4,155,000)
Compensated Absences Payable	(1,383,988)
Accrued Interest Payable	(64,679)
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 7,342,963</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, 2007

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Local Sources:			
Taxes	\$ 8,196,121	\$ 868,812	\$ 9,064,933
Tuition	121,331	0	121,331
Transportation Fees	2,271	0	2,271
Investment Earnings	435,200	1,185	436,385
Extracurricular Activities	57,529	204,553	262,082
Class Materials and Fees	46,114	31,601	77,715
Intergovernmental - State	2,882,892	517,992	3,400,884
Intergovernmental - Federal	0	277,528	277,528
All Other Revenue	16,352	135,719	152,071
Total Revenue	11,757,810	2,037,390	13,795,200
Expenditures:			
Current:			
Instruction	7,636,610	388,987	8,025,597
Supporting Services:			
Pupils	525,144	42,893	568,037
Instructional Staff	408,661	92,869	501,530
Board of Education	28,273	0	28,273
Administration	889,319	83,747	973,066
Fiscal Services	364,455	9,111	373,566
Operation and Maintenance of Plant	1,245,950	516,186	1,762,136
Pupil Transportation	37,445	0	37,445
Central	23,356	6,000	29,356
Community Services	2,000	388,205	390,205
Extracurricular Activities	335,751	256,476	592,227
Capital Outlay	0	30,690	30,690
Debt Service:			
Principal Retirement	0	265,000	265,000
Interest & Fiscal Charges	0	206,862	206,862
Total Expenditures	11,496,964	2,287,026	13,783,990
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	260,846	(249,636)	11,210
Other Financing Sources (Uses):			
Transfers In	0	147,350	147,350
Transfers Out	(147,350)	0	(147,350)
Refund of Prior Year Expenditures	1,085	16	1,101
Total Other Financing Sources (Uses)	(146,265)	147,366	1,101
Net Change in Fund Balance	114,581	(102,270)	12,311
Fund Balances at Beginning of Year	5,425,117	1,219,631	6,644,748
Fund Balances End of Year	\$ 5,539,698	\$ 1,117,361	\$ 6,657,059

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, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 12,311

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	584,305	
Depreciation Expense	<u>(292,507)</u>	291,798

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 183,899

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. 265,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 4,276

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>(101,087)</u>
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Change in Net Assets of Governmental Activities \$ 656,197

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, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 8,263,490	\$ 8,154,265	\$ 8,154,265	\$ 0
Tuition	50,000	121,251	121,251	0
Transportation Fees	1,300	2,571	2,571	0
Investment Earnings	231,000	449,485	449,485	0
Extracurricular Activities	52,200	57,910	57,910	0
Class Material and Fees	40,250	45,415	45,415	0
Intergovernmental - State	2,910,464	2,882,892	2,882,892	0
All Other Revenues	8,070	16,373	16,373	0
Total Revenues	<u>11,556,774</u>	<u>11,730,162</u>	<u>11,730,162</u>	<u>0</u>
Expenditures:				
Current:				
Instruction	7,825,326	7,830,348	7,647,488	182,860
Support Services:				
Pupils	523,669	544,360	524,128	20,232
Instructional Staff	416,643	418,824	409,365	9,459
Board of Education	27,500	26,814	25,885	929
Administration	941,782	920,128	887,562	32,566
Fiscal Services	407,155	409,084	370,544	38,540
Operation and Maintenance of Plant	1,297,689	1,324,007	1,250,051	73,956
Pupil Transportation	38,585	50,523	40,279	10,244
Central	55,000	51,434	23,356	28,078
Community Services	2,000	2,000	2,000	0
Extracurricular Activities	307,445	356,238	335,472	20,766
Total Expenditures	<u>11,842,794</u>	<u>11,933,760</u>	<u>11,516,130</u>	<u>417,630</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	(286,020)	(203,598)	214,032	417,630
Other Financing Sources (Uses):				
Transfers In	200,000	0	0	0
Transfers Out	(215,500)	(153,000)	(147,350)	5,650
Advances Out	(5,000)	(20,000)	0	20,000
Refund of Prior Year Expenditures	0	1,085	1,085	0
Total Other Financing Sources (Uses):	<u>(20,500)</u>	<u>(171,915)</u>	<u>(146,265)</u>	<u>25,650</u>
Net Change in Fund Balance	(306,520)	(375,513)	67,767	443,280
Fund Balance at Beginning of Year	6,135,617	6,135,617	6,135,617	0
Prior Year Encumbrances	71,771	71,771	71,771	0
Fund Balance at End of Year	<u>\$ 5,900,868</u>	<u>\$ 5,831,875</u>	<u>\$ 6,275,155</u>	<u>\$ 443,280</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

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

	Private Purpose Trust Funds	Student Managed Activity Fund	Total
Assets:			
Cash and Cash Equivalents	\$ 33,885	\$ 40,479	\$ 74,364
Total Assets	<u>33,885</u>	<u>40,479</u>	<u>74,364</u>
Liabilities:			
Due to Students	0	40,479	40,479
Total Liabilities	<u>0</u>	<u>40,479</u>	<u>40,479</u>
Net Assets:			
Unrestricted	33,885	0	33,885
Total Net Assets	<u>\$ 33,885</u>	<u>\$ 0</u>	<u>\$ 33,885</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, 2007***

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Private Donations	\$ 2,000
Investment Earnings:	
Interest	<u>2,075</u>
Total Additions	<u>4,075</u>
Deductions:	
Community Gifts, Awards and Scholarships	<u>3,054</u>
Change in Net Assets	1,021
Net Assets at Beginning of Year	<u>32,864</u>
Net Assets End of Year	<u><u>\$ 33,885</u></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, 2007

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 36 noncertified, 79 certified teaching personnel and 8 administrative employees providing education to 995 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, 2007

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, 2007

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, 2007, and which are not intended to finance fiscal 2007 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 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, 2007 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, 2007

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.

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 2007.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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 2007.

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, 2007

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:

<u>Net Change in Fund Balance</u>	<u>General Fund</u>
GAAP Basis (as reported)	\$114,581
Increase (Decrease):	
Accrued Revenues at June 30, 2007, received during FY 2008	(288,200)
Accrued Revenues at June 30, 2006, received during FY 2007	240,960
Accrued Expenditures at June 30, 2007, paid during FY 2008	1,145,459
Accrued Expenditures at June 30, 2006, paid during FY 2007	(1,100,430)
FY 2006 Prepays for FY 2007	77,199
FY 2007 Prepays for FY 2008	(83,798)
Encumbrances Outstanding	(38,004)
Budget Basis	<u>\$67,767</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts which are reported at cost, which approximates fair value. See Note 4, "Cash, Cash Equivalents and Investments." During fiscal year 2007, investments were limited to federal agency securities.

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$435,200. Of that amount, \$69,125 was the amount allocated by other funds.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of 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, 2007

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, 2007

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 315 days and will be paid up to 36% of accumulated sick leave up to a maximum of 113 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, 2007

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 2007.

NOTE 2 – SUBSEQUENT EVENT

On August 3, 2007 a \$130,115 addition to an existing roof replacement contract was approved by the District.

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2007 of \$315 in the Title VI-B Fund and \$290 in the Class Size Reduction Grant Fund (special revenue funds) 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, 2007

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

- 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, 2007***

NOTE 4 - 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 \$1,557,273 and the bank balance was \$2,019,725. Federal depository insurance covered \$100,000 of the bank balance and \$1,919,725 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>\$1,919,725</u>
Total Balance	<u><u>\$1,919,725</u></u>

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OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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

B. Investments

The District's investments at June 30, 2007 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
STAR Ohio	\$1,026,149	AAAm ¹	\$1,026,149	\$0	\$0
FNMA	1,995,313	AAA ^{1,2}	998,128 ^a	997,185 ^b	0
FHLB	1,849,012	AAA ^{1,2}	247,970 ^c	1,601,042 ^d	0
FHLMC	996,650	AAA ^{1,2}	0	499,050 ^e	497,600
Total Investments	<u>\$5,867,124</u>		<u>\$2,272,247</u>	<u>\$3,097,277</u>	<u>\$497,600</u>

¹ Standard & Poor's

² Moody's Investor Service

^a Call Option – Callable August 2007, October 2007 and quarterly thereafter.

^b Call Option – Callable July 2007 and quarterly thereafter.

^c Call Option – Callable December 2007 and January 2008.

^d Call Option – Callable September 2007, November 2007 and quarterly thereafter.

^e Call Option – Callable November 2007 and quarterly 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, 17% are STAR Ohio, 34% are FNMA, 32% are FHLB and 17% are FHLMC.

C. Reconciliation of Cash, Cash Equivalents and Investments

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

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$2,583,422	\$4,840,975
STAR Ohio	(1,026,149)	1,026,149
Per GASB Statement No. 3	<u>\$1,557,273</u>	<u>\$5,867,124</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 5 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2007 were levied after April 1, 2006 on assessed values as of January 1, 2006, 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 2007. 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. In prior years, tangible personal property used in business (except for public utilities) was assessed for ad valorem taxation purposes at 25 percent of its true value. As part of a phase out of the personal property tax, the assessment percentage for personal property was reduced to 12.5 percent in 2007. The rate will be reduced to 6.25 percent for 2008 and finally to zero in 2009. 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 2007, upon which the 2006 levies were based, were as follows:

	2006 Second Half Collections	2007 First Half Collections
Agricultural/Residential and Other Real Estate	\$175,992,450	\$185,817,330
Public Utility Personal	1,671,930	1,654,490
Tangible Personal Property	200,340	149,400
Total Assessed Value	<u>\$177,864,720</u>	<u>\$187,621,220</u>
Tax rate per \$1,000 of assessed valuation	\$120.35	\$120.85

NOTE 6 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts, and interest 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, 2007

NOTE 7 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2007:

<u>Fund</u>	<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>
General Fund	\$339	\$189
Other Governmental Funds	1,389	1,539
Totals	<u>\$1,728</u>	<u>\$1,728</u>

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2007:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$0	\$147,350
Other Governmental Funds	147,350	0
Total All Funds	<u>\$147,350</u>	<u>\$147,350</u>

All transfers made in fiscal year 2007 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, 2007

NOTE 9 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2007:

Historical Cost:

Class	June 30, 2006	Additions	Deletions	June 30, 2007
<i>Capital assets not being depreciated:</i>				
Land	\$743,629	\$0	\$0	\$743,629
Construction in Progress	0	191,999	0	191,999
<i>Capital assets being depreciated:</i>				
Land Improvements	837,327	75,115	0	912,442
Buildings and Improvements	7,601,680	229,200	0	7,830,880
Machinery/Equipment and Furniture/Fixtures	854,825	70,032	0	924,857
Vehicles	146,224	17,959	0	164,183
Total Cost	<u>\$10,183,685</u>	<u>\$584,305</u>	<u>\$0</u>	<u>\$10,767,990</u>

Accumulated Depreciation:

Class	June 30, 2006	Additions	Deletions	June 30, 2007
Land Improvements	(\$485,731)	(\$36,360)	\$0	(\$522,091)
Buildings and Improvements	(3,509,300)	(183,744)	0	(3,693,044)
Machinery/Equipment and Furniture/Fixtures	(880,710)	(60,462)	0	(941,172)
Vehicles	(76,212)	(11,941)	0	(88,153)
Total Depreciation	<u>(\$4,951,953)</u>	<u>(\$292,507) *</u>	<u>\$0</u>	<u>(\$5,244,460)</u>
<i>Net Value:</i>	<u>\$5,231,732</u>			<u>\$5,523,530</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$202,829
Support Services:	
Instructional Staff	972
Administration	2,700
Fiscal Services	956
Operations & Maintenance of Plant	42,664
Pupil Transportation	7,477
Extracurricular Activities	34,909
Total Depreciation Expense	<u>\$292,507</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

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

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

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and 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, 2007 10.68% was allocated to fund the pension benefit and 3.32% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2007, 2006, and 2005 were \$186,240, \$173,856, and \$169,188, 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 2007 employer contribution rate that was used to fund health care for the year 2007 was 3.32%. 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 2007, 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 \$71,173.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 10 - 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, 2007 were \$127,615,614. 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, 2007, the value of the health care fund was \$386.4 million. The number of participants eligible to receive benefits is 63,529.

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) 227-7877 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 among various investment choices. 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, 2007**

NOTE 10 - 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, 2007 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, 2007, 2006, and 2005 were \$790,500, \$770,568, and \$706,956, 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, 2007 the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$56,464 for the District. The balance of the Health Care Stabilization Fund was \$4.1 billion at June 30, 2007. For the fiscal year ended June 30, 2006, the net health care costs paid by STRS were \$265,558,000. There were 122,934 eligible benefit recipients.

NOTE 11 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2007 are as follows:

		Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007	Amount Due Within One Year
Governmental Activities:						
General Obligation Bonds:						
1998 School Improvement	4.75%	\$4,420,000	\$0	(\$265,000)	\$4,155,000	\$280,000
Compensated Absences		1,282,903	1,383,988	(1,282,903)	1,383,988	84,688
Total Long-Term Obligations		<u>\$5,702,903</u>	<u>\$1,383,988</u>	<u>(\$1,547,903)</u>	<u>\$5,538,988</u>	<u>\$364,688</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2007, follows:

Years	General Obligation Bonds	
	Principal	Interest
2008	\$280,000	\$194,038
2009	295,000	180,619
2010	315,000	166,369
2011	335,000	151,169
2012	355,000	135,019
2013-2017	2,085,000	399,476
2018-2019	490,000	17,575
Totals	\$4,155,000	\$1,244,265

NOTE 12 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2007, the reserve activity (cash-basis) was as follows:

	Textbook	Capital	Total
	Reserve	Acquisition Reserve	
Set-aside Cash Balance as of June 30, 2006	(\$615,684)	\$0	(\$615,684)
Current Year Set-Aside Requirement	151,120	151,120	302,240
Qualifying Disbursements	(284,075)	(639,745)	(923,820)
Total	(\$748,639)	(\$488,625)	(\$1,237,264)
Cash Balance Carried Forward to FY 2008	(\$748,639)	\$0	(\$748,639)

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, 2007

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 Education 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 \$68,006. 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.

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OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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 2007 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, 2007.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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 \$49,876 for the fiscal year 2007.

The following is a schedule of future minimum payments under the operating lease as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	
2008	\$31,000
2009	31,000
2010	31,000
2011	31,000
2012	31,000
2013 - Thereafter	124,000
Total Minimum Lease Payments	<u>\$ 279,000</u>

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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, 2007, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

www.lublinsussman.com

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as Finding 2007-001 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-001 to be a material weakness.

We 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 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, 2007**

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

FINDING NUMBER 2007-001

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 construction in process costs were not recorded, resulting in an understatement of fixed assets by approximately \$192,000.

To prevent the understatement of fixed assets, we recommend that all construction costs be recorded as a capital item even if the entire improvement project has not been completed at year end.

Response: Management will annually search for building improvements and equipment purchases, including construction in process, and determine these items have been recorded in the financial statements and depreciation schedules.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

Schedule of Prior Audit Findings
Fiscal Year Ended June 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-001	Material Weakness – Fixed Asset Controls	No	Finding reissued as finding number 2007-001.



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**