



**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2010



Mary Taylor, CPA
Auditor of State

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 25, 2010

Otsego Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of Otsego Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2010 were as follows:

Net assets increased \$21,058,641, or approximately 366 percent. This increase was due to an \$18.7 million receivable from the Ohio School Facilities Commission for grant resources to be used building construction.

General revenues were \$34,231,930, or 92 percent of all revenues. For fiscal year 2010, a significant portion of the general revenues was made up of grant resources related to the Ohio School Facilities Commission construction project; however, the overwhelming percentage of general revenues continues to demonstrate the School District's significant dependence on property and income taxes as well as State funding.

Using the Basic Financial Statements

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in a single column.

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

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

Otsego Local School District
Management's Discussion and Analysis
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Unaudited

Reporting the School District's Most Significant Funds

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2010 and fiscal year 2009:

		Table 1 Net Assets		
		Governmental Activities		
		2010	2009	Change
<u>Assets</u>				
Current and Other Assets		\$33,411,474	\$8,443,671	\$24,967,803
Capital Assets, Net		21,940,613	22,097,950	(157,337)
Total Assets		<u>55,352,087</u>	<u>30,541,621</u>	<u>24,810,466</u>
<u>Liabilities</u>				
Current and Other Liabilities		\$5,989,195	\$5,779,526	(\$209,669)
Long-Term Liabilities		22,558,090	19,015,934	(3,542,156)
Total Liabilities		<u>28,547,285</u>	<u>24,795,460</u>	<u>(3,751,825)</u>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt		4,949,357	4,869,222	80,135
Restricted		22,487,571	1,336,122	21,151,449
Unrestricted (Deficit)		(632,126)	(459,183)	(172,943)
Total Net Assets		<u>\$26,804,802</u>	<u>\$5,746,161</u>	<u>\$21,058,641</u>

Otsego Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

A review of the above table reflects several significant changes from the prior fiscal year. The \$25 million increase in current and other assets is primarily the result of two factors, the first, an \$18.7 million receivable from the Ohio School Facilities Commission for grant resources related to the building construction project. The School District also issued \$4 million in certificates of participation in fiscal year 2010, of which, \$3.6 million was not spent as of fiscal year end, therefore, increasing the balance of cash and cash equivalents. Both of these factors are also reflected in the increase in restricted net assets and the debt issuance is also noted in the increase in long-term liabilities.

Table 2 reflects the change in net assets for fiscal year 2010 and fiscal year 2009:

Table 2
Change in Net Assets

	Governmental Activities		
	2010	2009	Change
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$1,070,613	\$1,181,212	(\$110,599)
Operating Grants and Contributions	1,975,210	1,451,367	523,843
Capital Grants and Contributions	8,671	22,567	(13,896)
Total Program Revenues	<u>3,054,494</u>	<u>2,655,146</u>	<u>399,348</u>
General Revenues			
Property Taxes	\$4,875,266	\$5,317,311	(\$442,045)
Income Taxes	2,245,211	2,290,529	(45,318)
Grants and Entitlements	27,007,967	6,133,413	20,874,554
Interest	10,276	40,770	(30,494)
Gifts and Donations	9,600	1,900	7,700
Miscellaneous	83,610	169,602	(85,992)
Total General Revenues	<u>34,231,930</u>	<u>13,953,525</u>	<u>20,278,405</u>
Total Revenues	<u>37,286,424</u>	<u>16,608,671</u>	<u>20,677,753</u>
<u>Expenses</u>			
Instruction:			
Regular	7,381,957	7,359,184	(22,773)
Special	2,476,706	2,375,799	(100,907)
Vocational	39,028	50,174	11,146
Support Services:			
Pupils	625,461	675,162	49,701
Instructional Staff	322,231	731,183	408,952
Board of Education	52,553	20,265	(32,288)
Administration	991,147	1,168,869	177,722
Fiscal	398,192	381,398	(16,794)
Business	4,709	1,128	(3,581)
Operation and Maintenance of Plant	1,001,506	1,270,012	268,506

Otsego Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Pupil Transportation	962,838	878,227	(84,611)
Non-Instructional Services	664,072	683,810	19,738
Extracurricular Activities	419,027	438,657	19,630
Interest and Fiscal Charges	888,356	804,129	(84,227)
Total Expenses	<u>16,227,783</u>	<u>16,837,997</u>	<u>610,214</u>
Increase (Decrease) in Net Assets	21,058,641	(229,326)	21,287,967
Net Assets at Beginning of Year	5,746,161	5,975,487	(229,326)
Net Assets at End of Year	<u>\$26,804,802</u>	<u>\$5,746,161</u>	<u>\$21,058,641</u>

All three categories of program revenues had fairly sizable changes from the prior fiscal year. The decrease in charges for services resulted from a reduction in fees and cafeteria charges with the closing of an elementary school. The increase in operating grants and contributions was due to additional grant resources from federal stimulus funding. The School District received additional resources for school bus purchases in fiscal year 2009, therefore, the decrease in capital grants and contributions

There were also some significant changes in general revenues. In December 2009, a 1.6 mill permanent improvement levy was discontinued because the Board of Education decided to move inside millage to meet the Ohio School Facilities Commission permanent improvement requirements. This change will begin in January 2011. By letting the current levy expire for a year, taxpayers were afforded a few months of reduced taxation. The increase in intergovernmental revenues was primarily due to the grant resources from the Ohio School Facilities Commission as discussed previously. The decrease in interest revenue reflects the continued poor economic conditions being experienced nationally.

Overall, expenses decreased almost 4 percent, which was not a significant change; however, there were several changes of note. The cost of the instructional staff program decreased 56 percent due to a reduction in librarians and through attrition as retired staff members were not replaced. The administration program costs decreased 15 percent with the retirement of the high school principal in March and the Superintendent filling both roles for the remainder of the school year. With the closing of an elementary school, there was a decrease in operation and maintenance costs.

As is to be expected, instruction programs are the School District's largest expense, accounting for 61 percent of all governmental activities expenses. Combined with the support services related to instruction, such as pupils, instructional staff, operation and maintenance of plant, and pupil transportation, 79 percent of all of the School District's expenses are related directly to the functions of delivering education and maintaining facilities.

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

Otsego Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction:				
Regular	\$7,381,957	\$7,359,184	\$6,953,818	\$6,793,182
Special	2,476,706	2,375,799	835,358	1,274,596
Vocational	39,028	50,174	34,986	46,169
Support Services:				
Pupils	625,461	675,162	616,558	666,200
Instructional Staff	322,231	731,183	322,231	731,183
Board of Education	52,553	20,265	52,553	20,265
Administration	991,147	1,168,869	991,147	1,168,869
Fiscal	398,192	381,398	398,192	381,398
Business	4,709	1,128	4,709	1,128
Operation and Maintenance of Plant	1,001,506	1,270,012	1,001,506	1,270,012
Pupil Transportation	962,838	878,227	930,968	824,177
Non-Instructional Services	664,072	683,810	(120,329)	(86,455)
Extracurricular Activities	419,027	438,657	263,236	287,998
Interest and Fiscal Charges	888,356	804,129	888,356	804,129
Total Expenses	<u>\$16,227,783</u>	<u>\$16,837,997</u>	<u>\$13,173,289</u>	<u>\$14,182,851</u>

With the increase in program revenues in fiscal year 2010, the costs of programs supported by general revenues, primarily taxes and school foundation resources, was slightly less than in the prior fiscal year. The above table also demonstrates that several of the School District's programs are substantially provided for through program revenues. For instance, 66 percent of the special instruction program costs were provided for through program revenues, those primarily being operating grants restricted for special instruction purposes. Again in fiscal year 2010, all of the costs of the non-instructional program was paid for through cafeteria sales and state and federal subsidies and donated commodities for food service operations. Extracurricular activities costs are largely supported by music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The change in fund balance for the General Fund and the Bond Retirement Fund was not significant. The Classroom Facilities Fund did not have a fund balance at the end of the prior fiscal year. For fiscal year 2010, debt proceeds and grant resources exceeded the amount spent for construction during the year which resulted in a substantial increase in fund balance.

General Fund Budgeting Highlights

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

Otsego Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

During fiscal year 2010, the School District amended its General Fund budget as needed. Changes from the original budget to the final budget and from the final budget to actual revenues received were not significant. The same can be said for expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District had \$21,940,613 invested in capital assets (net of accumulated depreciation), a change of less than 1 percent from the prior fiscal year. The most significant addition was related to building construction. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2010, the School District had outstanding general obligation debt, in the amount of \$21,778,513. In addition, the School District's long-term obligations include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

Current Issues

Otsego Local School District is a rural school district located in Wood County and relies heavily on the local taxpayer's for General Fund revenues.

Current projections of the School District's financial status indicate the need for additional revenues in the future. Due to the uncertainty of the State budget, fiscal planning is difficult. While the School District continues to spend as prudently as possible and consolidation will result in savings, there will be cuts in non-payroll related expenditures of 10 percent. There are significant challenges in being able to continue to provide an outstanding education to the youth of the School District in the near future given the current revenue flows projected.

Contacting the School District's Financial Management

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

Otsego Local School District
Statement of Net Assets
June 30, 2010

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$7,874,484
Cash and Cash Equivalents with Fiscal Agents	440
Accounts Receivable	24,677
Accrued Interest Receivable	6,430
Intergovernmental Receivable	19,059,922
Income Taxes Receivable	921,843
Prepaid Items	36,817
Inventory Held for Resale	4,919
Materials and Supplies Inventory	1,426
Property Taxes Receivable	5,150,631
Unamortized Issuance Cost	329,885
Nondepreciable Capital Assets	519,642
Depreciable Capital Assets, Net	21,420,971
Total Assets	55,352,087
 <u>Liabilities:</u>	
Accounts Payable	9,627
Contracts Payable	49,132
Accrued Wages and Benefits Payable	1,019,000
Intergovernmental Payable	358,915
Matured Compensated Absences Payable	62,466
Deferred Revenue	4,362,302
Accrued Interest Payable	127,753
Long-Term Liabilities:	
Due Within One Year	633,187
Due in More Than One Year	21,924,903
Total Liabilities	28,547,285
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,949,357
Restricted For:	
Set Asides	41,050
Debt Service	436,129
Capital Projects	21,634,039
Athletics and Music	22,876
Other Purposes	353,477
Unrestricted (Deficit)	(632,126)
Total Net Assets	\$26,804,802

See Accompanying Notes to Basic Financial Statements

Otsego Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$7,381,957	\$335,488	\$83,980	\$8,671	(\$6,953,818)
Special	2,476,706	56,020	1,585,328		(835,358)
Vocational	39,028		4,042		(34,986)
Support Services:					
Pupils	625,461		8,903		(616,558)
Instructional Staff	322,231				(322,231)
Board of Education	52,553				(52,553)
Administration	991,147				(991,147)
Fiscal	398,192				(398,192)
Business	4,709				(4,709)
Operation and Maintenance of Plant	1,001,506				(1,001,506)
Pupil Transportation	962,838		31,870		(930,968)
Non-Instructional Services	664,072	529,856	254,545		120,329
Extracurricular Activities	419,027	149,249	6,542		(263,236)
Interest and Fiscal Charges	888,356				(888,356)
Total Governmental Activities	<u>\$16,227,783</u>	<u>\$1,070,613</u>	<u>\$1,975,210</u>	<u>\$8,671</u>	<u>(13,173,289)</u>
General Revenues:					
Property Taxes Levied for General Purposes					3,816,987
Property Taxes Levied for Debt Service					1,018,254
Property Taxes Levied for Permanent Improvements					40,025
Income Taxes Levied for General Purposes					2,245,211
Grants and Entitlements not Restricted to Specific Programs					27,007,967
Interest					10,276
Gifts and Donations					9,600
Miscellaneous					83,610
Total General Revenues					<u>34,231,930</u>
Change in Net Assets					21,058,641
Net Assets at Beginning of Year					5,746,161
Net Assets at End of Year					<u>\$26,804,802</u>

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
Balance Sheet
Governmental Funds
June 30, 2010

	General	Bond Retirement	Classrom Facilities	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$679,451	\$476,435	\$5,721,183	\$905,677	\$7,782,746
Cash and Cash Equivalents with Fiscal Agents				440	440
Accounts Receivable	24,427			250	24,677
Accrued Interest Receivable	5,758		629	43	6,430
Intergovernmental Receivable	166	49	18,790,614	269,093	19,059,922
Income Taxes Receivable	921,843				921,843
Prepaid Items	36,817				36,817
Inventory Held for Resale				4,919	4,919
Materials and Supplies Inventory				1,426	1,426
<u>Restricted Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	91,738				91,738
Property Taxes Receivable	4,056,672	1,093,959			5,150,631
Total Assets	<u>\$5,816,872</u>	<u>\$1,570,443</u>	<u>\$24,512,426</u>	<u>\$1,181,848</u>	<u>\$33,081,589</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$9,456			\$171	\$9,627
Contracts Payable			\$49,132		49,132
Accrued Wages and Benefits Payable	983,683			35,317	1,019,000
Intergovernmental Payable	329,042			29,873	358,915
Matured Compensated Absences Payable	62,466				62,466
Deferred Revenue	3,686,941	\$946,706	18,790,614	264,316	23,688,577
Total Liabilities	<u>5,071,588</u>	<u>946,706</u>	<u>18,839,746</u>	<u>329,677</u>	<u>25,187,717</u>
<u>Fund Balances:</u>					
Reserved for Property Taxes	527,022	147,302			674,324
Reserved for Capital Improvements	41,050				41,050
Reserve for Bus Purchase	50,688				50,688
Reserved for Encumbrances	68,677		74,838	848	144,363
<u>Unreserved, Reported in:</u>					
General Fund	57,847				57,847
Special Revenue Funds				56,561	56,561
Debt Service Fund		476,435			476,435
Capital Projects Funds			5,597,842	794,762	6,392,604
Total Fund Balances	<u>745,284</u>	<u>623,737</u>	<u>5,672,680</u>	<u>852,171</u>	<u>7,893,872</u>
Total Liabilities and Fund Balances	<u>\$5,816,872</u>	<u>\$1,570,443</u>	<u>\$24,512,426</u>	<u>\$1,181,848</u>	<u>\$33,081,589</u>

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities
 June 30, 2010

Total Governmental Fund Balances		\$7,893,872
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		21,940,613
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	22,953	
Intergovernmental Receivable	19,055,145	
Income Taxes Receivable	134,172	
Property Taxes Receivable	114,005	
		19,326,275
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		329,885
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(127,753)	
General Obligation Debt Payable	(21,778,513)	
Compensated Absences Payable	(779,577)	
		(22,685,843)
Net Assets of Governmental Activities		\$26,804,802

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Bond Retirement	Classroom Facilities	Other Governmental	Total Governmental Funds
Revenues:					
Property Taxes	\$3,815,144	\$1,016,619		\$43,383	\$4,875,146
Income Taxes	2,237,575				2,237,575
Intergovernmental	6,061,351	153,989	\$2,125,000	1,581,150	9,921,490
Interest	7,112		3,664	288	11,064
Tuition and Fees	539,709				539,709
Extracurricular Activities	23,935			125,314	149,249
Charges for Services				384,772	384,772
Gifts and Donations	9,600			6,542	16,142
Miscellaneous	60,186			24,336	84,522
Total Revenues	<u>12,754,612</u>	<u>1,170,608</u>	<u>2,128,664</u>	<u>2,165,785</u>	<u>18,219,669</u>
Expenditures:					
Current:					
Instruction:					
Regular	7,000,754			111,808	7,112,562
Special	1,630,893			868,211	2,499,104
Vocational	10,530				10,530
Support Services:					
Pupils	600,340			20,929	621,269
Instructional Staff	327,065			5,338	332,403
Board of Education	52,553				52,553
Administration	925,233			44,629	969,862
Fiscal	374,730	12,649		4,651	392,030
Business	4,709				4,709
Operation and Maintenance of Plant	652,619			299,858	952,477
Pupil Transportation	902,001			2,522	904,523
Non-Instructional Services	0			636,469	636,469
Extracurricular Activities	223,188			143,895	367,083
Capital Outlay	1,422		375,984	9,028	386,434
Debt Service:					
Principal Retirement		535,000			535,000
Interest and Fiscal Charges		664,524			664,524
Issuance Costs			80,000		80,000
Total Expenditures	<u>12,706,037</u>	<u>1,212,173</u>	<u>455,984</u>	<u>2,147,338</u>	<u>16,521,532</u>
Excess of Revenues Over (Under) Expenditures	<u>48,575</u>	<u>(41,565)</u>	<u>1,672,680</u>	<u>18,447</u>	<u>1,698,137</u>
Other Financing Sources (Uses):					
Certificates of Participation			4,000,000		4,000,000
Transfers In				60,000	60,000
Transfers Out	(60,000)				(60,000)
Total Other Financing Sources (Uses)	<u>(60,000)</u>		<u>4,000,000</u>	<u>60,000</u>	<u>4,000,000</u>
Changes in Fund Balances	(11,425)	(41,565)	5,672,680	78,447	5,698,137
Fund Balances at Beginning of Year	756,709	665,302		773,724	2,195,735
Fund Balances at End of Year	<u>\$745,284</u>	<u>\$623,737</u>	<u>\$5,672,680</u>	<u>\$852,171</u>	<u>\$7,893,872</u>

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Fiscal Year Ended June 30, 2010

Changes in Fund Balances - Total Governmental Funds \$5,698,137

Amounts reported for governmental activities on the statement of activities are different because of the following:

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

Capital Outlay - Nondepreciable Capital Assets	375,983	
Capital Outlay - Depreciable Capital Assets	37,895	
Capital Contributions	8,671	
Depreciation	<u>(568,284)</u>	(145,735)

The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (11,602)

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

Property Taxes	120	
Income Taxes	7,636	
Intergovernmental	19,055,145	
Interest	(788)	
Tuition and Fees	(3,117)	
Miscellaneous	<u>(912)</u>	19,058,084

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 535,000

Debt proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (4,000,000)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. Premiums and discounts are reported as revenues/expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities. Accounting losses are amortized over the life of the debt on the statement of activities.

Accrued Interest Payable	(74,200)	
Annual Accretion on Capital Appreciation Bonds	(223,713)	
Amortization of Premium	90,273	
Amortization of Discount	(744)	
Amortization of Accounting Loss	<u>(11,561)</u>	(219,945)

Issuance costs are reported as an expenditure when paid in the governmental funds but are amortized over the life of the debt on the statement of activities.

Amortization of Issuance Costs	(3,887)	
Unamortized Issuance Costs	<u>80,000</u>	76,113

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 68,589

Change in Net Assets of Governmental Activities \$21,058,641

Otsego Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$4,038,423	\$3,978,423	\$3,978,366	(\$57)
Income Taxes	2,156,555	2,156,555	2,215,600	59,045
Intergovernmental	6,081,450	6,117,235	6,061,351	(55,884)
Interest	32,949	32,949	7,666	(25,283)
Tuition and Fees	641,707	641,707	539,709	(101,998)
Extracurricular Activities	25,010	25,010	23,935	(1,075)
Gifts and Donations	1,600	1,600	9,600	8,000
Miscellaneous	26,841	35,378	44,433	9,055
Total Revenues	<u>13,004,535</u>	<u>12,988,857</u>	<u>12,880,660</u>	<u>(108,197)</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,848,630	6,852,100	6,983,899	(131,799)
Special	1,851,319	1,878,423	1,650,317	228,106
Vocational	12,716	12,716	11,230	1,486
Support Services:				
Pupils	443,408	443,408	601,036	(157,628)
Instructional Staff	217,885	329,360	341,371	(12,011)
Board of Education	12,111	17,215	42,272	(25,057)
Administration	1,061,261	1,049,921	941,137	108,784
Fiscal	247,257	384,060	396,486	(12,426)
Business	6,409	6,409	4,285	2,124
Operation and Maintenance of Plant	704,657	670,277	633,929	36,348
Pupil Transportation	975,068	979,669	911,619	68,050
Extracurricular Activities	245,749	245,750	226,552	19,198
Capital Outlay	1,600	1,600	1,422	178
Total Expenditures	<u>12,628,070</u>	<u>12,870,908</u>	<u>12,745,555</u>	<u>125,353</u>
Excess of Revenues Over Expenditures	<u>376,465</u>	<u>117,949</u>	<u>135,105</u>	<u>17,156</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures	40,000	40,000	15,640	(24,360)
Transfers Out	(60,000)	(60,000)	(60,000)	
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(44,360)</u>	<u>(24,360)</u>
Changes in Fund Balance	356,465	97,949	90,745	(7,204)
Fund Balance at Beginning of Year	517,389	517,389	517,389	
Prior Year Encumbrances Appropriated	93,341	93,341	93,341	
Fund Balance at End of Year	<u>\$967,195</u>	<u>\$708,679</u>	<u>\$701,475</u>	<u>(\$7,204)</u>

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2010

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$62,477	\$37,764
Accrued Interest Receivable	30	
Total Assets	62,507	\$37,764
 <u>Liabilities:</u>		
Due to Students		\$37,764
 <u>Net Assets:</u>		
Held in Trust for Scholarships	34,527	
Endowment	27,980	
Total Net Assets	\$62,507	

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
Statement of Change in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2010

	Private Purpose Trust
<u>Additions:</u>	
Interest	\$350
Gifts and Donations	1,023
Total Additions	1,373
 <u>Deductions:</u>	
Non-Instructional Services	5,781
Change in Net Assets	(4,408)
Net Assets at Beginning of Year	66,915
Net Assets at End of Year	\$62,507

See Accompanying Notes to the Basic Financial Statements

Note 1 - Description of the School District and Reporting Entity

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

The School District serves an area of approximately one hundred forty-four square miles. It is located in portions of Wood, Lucas, and Henry Counties, including the villages of Tontogany, Haskins, Grand Rapids, and Weston, and portions of surrounding townships. The School District is the 327th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by fifty-nine classified employees, eighty-nine certified teaching personnel, and eight administrative employees who provide services to 1,599 students and other community members. The School District currently operates three elementary schools, one middle school, and one comprehensive high school.

Reporting Entity

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

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School District's major governmental funds are the General Fund, the Bond Retirement debt service fund, and the Classroom Facilities capital projects fund.

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Classroom Facilities - The Classroom Facilities Fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio School Facilities Commission for building one new elementary school to house grades PK thru 5, renovations to the high school, and demolition of three elementary schools.

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level

Note 2 - Summary of Significant Accounting Policies (Continued)

of control selected by the Board. The legal level of control selected by the Board is at the fund level for all funds. Budgetary allocations at the function and object level for all funds are made by the School District Treasurer.

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

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

F. Cash and Investments

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

During fiscal year 2010, investments consisted of mutual funds and STAR Ohio. Investments are reported at fair value, which is based on current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2010.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2010 was \$7,112, which includes \$5,147 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

Note 2 - Summary of Significant Accounting Policies (Continued)

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements as well as unexpended revenues restricted for bus purchases.

J. Capital Assets

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

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

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

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

K. Compensated Absences

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Unamortized Issuance Costs, Premiums, and Discounts

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

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the period when the debt is issued.

N. Unamortized Loss on Advance Refunding

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

O. Net Assets

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, capital improvements, bus purchase, and encumbrances.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

Q. Capital Contributions

Capital contributions arise from outside contributions of capital assets.

R. Interfund Transactions

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

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

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

S. Estimates

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

Note 3 - Change in Accounting Principles

For fiscal year 2010, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

Note 3 - Change in Accounting Principles (Continued)

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

Note 4 - Accountability and Compliance

A. Accountability

At June 30, 2010, the Food Service, Title I, and Title II-A special revenue funds had deficit fund balances, in the amount of \$3,940, \$111 and \$1,295, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

At June 30, 2010, the Private Purpose Trust Fund had expenditures in excess of appropriations, in the amount of \$2,748. The Treasurer will monitor expenditures to ensure they are within amounts appropriated.

Note 5 - Budgetary Basis of Accounting

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

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

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

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

Otsego Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 5 - Budgetary Basis of Accounting (Continued)

Changes in Fund Balance

GAAP Basis	(\$11,425)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2009, Received in Cash FY 2010	1,463,819
Accrued FY 2010, Not Yet Received in Cash	(1,321,925)
Expenditure Accruals:	
Accrued FY 2009, Paid in Cash FY 2010	(1,357,039)
Accrued FY 2010, Not Yet Paid in Cash	1,384,647
Cash Adjustments:	
Unrecorded Activity FY 2010	(206)
Prepaid Items	2,382
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(69,508)
Budget Basis	\$90,745

Note 6 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Note 6 - Deposits and Investments (Continued)

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$27,365 of the School District's bank balance of \$5,938,661 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of June 30, 2010, the School District had the following investments:

	Fair Value	Maturity
Mutual Funds	\$1,875,000	average 43 days
STAR Ohio	389,301	average 56 days
Total Investments	\$2,264,301	

Note 6 - Deposits and Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of purchase unless they are matched to a specific obligation or debt of the School District.

The mutual funds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 7 - Receivables

Receivables at June 30, 2010, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except property taxes and income taxes, are expected to be collected within one year. Property taxes and income taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	
Lucas County	\$117
Henry County	49
Total General Fund	166
Bond Retirement Fund	
Lucas County	33
Henry County	16
Total Bond Retirement Fund	49
Classroom Facilities Fund	
Ohio School Facilities Commission	18,790,614
Other Governmental Funds	
Idea Part B	213,043
Title I	44,306
Title II-A	11,744
Total Other Governmental Funds	269,093
Total Intergovernmental Receivables	\$19,059,922

Note 8 - Income Taxes

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

Note 9 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Wood, Lucas, and Henry Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2010, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Otsego Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 9 - Property Taxes (Continued)

The amount available as an advance at June 30, 2010, was \$527,022 in the General Fund and \$147,302 in the Bond Retirement debt service fund. The amount available as an advance at June 30, 2009, was \$689,466 in the General Fund, \$184,259 in the Bond Retirement debt service fund, and \$26,535 in the Permanent Improvement capital projects fund.

The late tax settlement made by the counties for fiscal year 2009 was \$778 in the General Fund, \$104 in the Bond Retirement debt service fund, and \$30 in the Permanent Improvement capital projects fund.

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

The assessed values upon which fiscal year 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$196,322,970	93.17%	\$195,974,410	92.97%
Industrial/Commercial	14,256,940	6.77	14,674,910	6.96
Public Utility	130,820	.06	151,640	.07
Total Assessed Value	<u>\$210,710,730</u>	<u>100.00%</u>	<u>\$210,800,960</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$48.65		\$47.35	

Property tax collections were discontinued on December 31, 2009, on a 1.6 mill permanent improvement levy.

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$143,659			\$143,659
Construction In Progress		\$375,983		375,983
Total Nondepreciable Capital Assets	<u>143,659</u>	<u>375,983</u>		<u>519,642</u>
Depreciable Capital Assets				
Land Improvements	547,848			547,848
Buildings and Building Improvements	23,713,862			23,713,862
Furniture, Fixtures, and Equipment	866,364	20,291	(\$16,347)	870,308
Vehicles	1,084,321	26,275	(58,008)	1,052,588
Total Depreciable Capital Assets	<u>26,212,395</u>	<u>46,566</u>	<u>(74,355)</u>	<u>26,184,606</u>

Otsego Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 10 - Capital Assets (Continued)

Less Accumulated Depreciation				
Land Improvements	(\$224,062)	(\$20,166)		(\$244,228)
Buildings and Building Improvements	(3,074,530)	(418,188)		(3,492,718)
Furniture, Fixtures, and Equipment	(532,782)	(60,865)	\$16,347	(577,300)
Vehicles	(426,730)	(69,065)	46,406	(449,389)
Total Accumulated Depreciation	<u>(4,258,104)</u>	<u>(568,284)</u>	<u>62,753</u>	<u>(4,763,635)</u>
Depreciable Capital Assets, Net	<u>21,954,291</u>	<u>(521,718)</u>	<u>(11,602)</u>	<u>21,420,971</u>
Governmental Activities Capital Assets, Net	<u>\$22,097,950</u>	<u>(\$145,735)</u>	<u>(\$11,602)</u>	<u>\$21,940,613</u>

The School District accepted contributions of depreciable capital assets for governmental activities with a fair value of \$8,671 during fiscal year 2010.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$255,879
Special	18,866
Vocational	28,498
Support Services:	
Instructional Staff	21,082
Administration	23,035
Fiscal	164
Operation and Maintenance of Plant	65,692
Pupil Transportation	74,273
Non-Instructional Services	25,856
Extracurricular Activities	54,939
Total Depreciation Expense	<u>\$568,284</u>

Note 11 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the School District contracted for the following insurance coverage:

Note 11 - Risk Management (Continued)

Coverage provided by Ohio Casualty Insurance is as follows:

General School District Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Building and Contents	53,476,482
Umbrella Liability	2,000,000
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

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

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

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 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 Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the

Note 12 - Defined Benefit Pension Plans (Continued)

defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 was \$700,087, \$752,359, and \$811,825 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DCP and CP for fiscal year 2010 are not yet available.

B. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 was \$167,410, \$140,318, and \$146,724 respectively; 35 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2010, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - The School District contributes to a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$53,853, \$57,874, and \$62,775 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. School Employees Retirement System

Plan Description - The School District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was \$26,199.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The School District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was \$6,026, \$64,216, and \$66,955 respectively; 36 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 13 - Postemployment Benefits (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 was \$9,956, \$11,577, and \$10,572 respectively; 36 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 14 - Other Employee Benefits

A. Compensated Absences

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

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

B. Health Care Benefits

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

Note 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2010 were as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10	Amounts Due Within One Year
General Obligation Debt					
FY 2010 Certificates of Participation 1.95%		\$4,000,000		\$4,000,000	\$250,000
FY 2007 School Facilities Construction and Improvement Refunding					
Serial Bonds 4 - 4.125%	\$6,620,000		\$75,000	6,545,000	80,000
Term Bonds 4%	2,135,000			2,135,000	
Capital Appreciation Bonds	45,000			45,000	
Accretion on Capital Appreciation Bonds	68,922	50,437		119,359	
Premium	884,292		7,537	876,755	
Discount	(32,256)		(275)	(31,981)	
Accounting Loss	(720,514)		(6,140)	(714,374)	
FY 2007 School Facilities Construction and Improvement Refunding					

Otsego Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Long-Term Obligations

Serial Bonds 4 - 4.125%	5,040,000		70,000	4,970,000	75,000
Term Bonds 4%	985,000			985,000	
Capital Appreciation Bonds	220,000			220,000	
Accretion on Capital Appreciation Bonds	105,672	57,267		162,939	
Premium	634,258		7,110	627,148	
Discount	(41,833)		(469)	(41,364)	
Accounting Loss	(483,676)		(5,421)	(478,255)	
FY 2004 School Facilities Construction and Improvement					
Serial Bonds 5.0233%	1,755,000		370,000	1,385,000	
Capital Appreciation Bonds	235,000			235,000	125,976
Accretion on Capital Appreciation Bonds	350,042	116,009		466,051	
Premium	160,632		75,626	85,006	
Discount	(7,771)			(7,771)	
FY 1994 School Facilities Improvement 5.0983%					
	215,000		20,000	195,000	25,000
Total General Obligation Debt	18,167,768	4,223,713	612,968	21,778,513	555,976
Compensated Absences Payable	848,166		68,589	779,577	77,211
Total Governmental Activities Long-Term Liabilities	\$19,015,934	\$4,223,713	\$681,557	\$22,558,090	\$633,187

FY 2010 Certificates of Participation - On December 18, 2009, the School District issued certificates of participation, in the amount of \$4,000,000, to construct and renovate buildings. The debt was issued in accordance with the American Recovery and Reinvestment Act of 2009, which provides for federal tax credits for the holders of debt in lieu of interest payments. This reduces the issuers costs of borrowing. This debt was issued for a fifteen year period, with final maturity at during fiscal year 2025. The debt will be retired through the Classroom Facilities capital projects fund. As of June 30, 2010, there were unspent proceeds, in the amount of \$3,624,017.

The debt maturing on September 16, 2024, is subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

Year	Amount
2010	\$250,000
2011	235,000
2012	240,000
2013	245,000
2014	250,000
2015	255,000
2016	260,000
2017	265,000
2018	270,000
2019	275,000
2020	280,000
2021	285,000
2022	290,000
2023	295,000

Note 15 - Long-Term Obligations (Continued)

The remaining principal, in the amount of \$305,000, will be paid at stated maturity on September 16, 2024.

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

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature on December 1, 2014, December 1, 2015, and December 1, 2016, in the amount of \$95,000, \$620,000, and \$630,000, respectively. For fiscal year 2010, \$50,437 was accreted on the capital appreciation bonds for a total bond value of \$164,359 at fiscal year end.

At June 30, 2010, \$8,965,000 of the refunded bonds was still outstanding.

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

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

The capital appreciation bonds are not subject to prior redemption. The capital appreciation bonds will mature on December 1, 2017, and December 1, 2018, in the amount of \$690,000, and \$685,000, respectively. For fiscal year 2010, \$57,267 was accreted on the capital appreciation bonds for a total bond value of \$382,939 at fiscal year end.

At June 30, 2010, \$6,420,000 of the refunded bonds was still outstanding.

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

The capital appreciation bonds are not subject to redemption prior to maturity. The capital appreciation bonds will mature on December 1, 2010, and December 1, 2011, in the amount of \$405,000 and \$420,000, respectively. For fiscal year 2010, \$116,009 was accreted on the capital appreciation bonds for a total bond value of \$701,051 at fiscal year end.

Otsego Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Long-Term Obligations (Continued)

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

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

The School District's overall debt margin was (\$1,119,177) with an unvoted debt margin of \$210,801 at June 30, 2010. On August 13, 2002, the Tax Equalization Department approved the School District as a Special Needs District that allows them to have a negative debt margin.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2010, were as follows:

Fiscal Year Ending June 30,	General Obligation Debt				
	Serial	Term	Capital	Interest	Total
2011	\$430,000		\$125,976	\$988,444	\$1,544,420
2012	425,000		109,024	1,027,745	1,561,769
2013	860,000			695,791	1,555,791
2014	905,000			665,155	1,570,155
2015	860,000		5,166	724,587	1,589,753
2016-2020	2,310,000	\$100,000	259,834	5,337,468	8,007,302
2021-2025	4,710,000	905,000		2,275,566	7,890,566
2026-2030	2,975,000	2,115,000		1,255,529	6,345,529
2031-2033	3,620,000			221,000	3,841,000
	<u>\$17,095,000</u>	<u>\$3,120,000</u>	<u>\$500,000</u>	<u>\$13,191,285</u>	<u>\$33,906,285</u>

Note 16 - Set Asides

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2010.

Otsego Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 16 - Set Asides (Continued)

	Textbooks	Capital Improvements
Balance June 30, 2009	(\$836,611)	
Current Year Set Aside Requirement	245,132	\$245,132
Current Year Offsets		(90,039)
Qualifying Expenditures	(430,637)	(114,043)
Reserve Balance June 30, 2010	(\$1,022,116)	\$41,050

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

Note 17 - Interfund Transfers

During fiscal year 2010, the General Fund made transfers to other governmental funds, in the amount of \$60,000, to subsidize various programs in other funds.

Note 18 - Donor Restricted Endowments

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$27,980, represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$34,527 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

Note 19 - Jointly Governed Organizations

A. Northwest Ohio Computer Association

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

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2010, the School District paid \$41,429 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 209 Nolan Parkway, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The board is elected from an

Note 19 - Jointly Governed Organizations (Continued)

Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Educational Council, 209 Nolan Parkway, Archbold, Ohio 43502.

C. Penta Career Center

The Penta Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of eleven members from the participating School Districts' elected Boards. Board members are appointed for a term of two years to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Educational Service Centers, one each from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Educational Service Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from Penta Career Center, 9301 Buck Road, Perrysburg, Ohio 43551.

D. Northwestern Ohio Educational Research Council, Inc.

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

Note 20 - Related Organization

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

Note 21 - Insurance Pools

A. Wood County Schools Benefit Plan Association

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

Note 21 - Insurance Pools (Continued)

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

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

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

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

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

B. Litigation

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR	Federal		
<i>Pass Through Grantor</i>	CFDA		
Program Title	Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
Nutrition Cluster:			
National School Lunch Program:			
Cash Assistance	10.555	\$173,523	\$173,523
Non-Cash Assistance (Food Distribution)		59,546	59,546
Total National School Lunch Program		<u>233,069</u>	<u>233,069</u>
School Breakfast Program	10.553	<u>17,663</u>	<u>17,663</u>
Total Nutrition Cluster:		250,732	250,732
Total U.S. Department of Agriculture		<u>250,732</u>	<u>250,732</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	144,639	144,639
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>51,124</u>	<u>51,124</u>
Total Title I, Part A Cluster		195,763	195,763
Special Education Cluster:			
Education Grants to States	84.027	373,924	373,924
ARRA - Special Education Grants to States	84.391	<u>212,002</u>	<u>212,002</u>
Total Special Education Cluster:		585,926	585,926
Safe and Drug Free Schools and Communities State Grants	84.186	3,903	3,903
Javits Gifted and Talented Students Education Grant Program	84.206	100	100
Education Technology State Grants	84.318	1,338	1,338
Improving Teacher Quality State Grants	84.367	80,333	82,046
ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	<u>361,567</u>	<u>361,567</u>
Total U.S. Department of Education		<u>1,228,930</u>	<u>1,230,643</u>
Total Federal Awards Receipts and Expenditures		<u>\$1,479,662</u>	<u>\$1,481,375</u>

The accompanying notes are an integral part of this Schedule.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 25, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Otsego Local School District, Wood County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Otsego Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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



Mary Taylor, CPA
Auditor of State

August 25, 2010

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Program:	ARRA State State Fiscal Stabilization Fund – Education State Grants CFDA # 84.394 Special Education Cluster: Special Education – Grants to States CFDA #84.027 ARRA - Special Education – Grants to States CFDA #84.391
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Revised Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Otsego Local School District, Wood County, Ohio has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on October 29, 2007.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - (1) A procedure for reporting prohibited incidents;
 - (2) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (3) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Revised Code Section 3313.666;

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www.auditor.state.oh.us

- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
- (6) A procedure for documenting any prohibited incident that is reported.

However, the policy did not include the following requirements from Ohio Revised Code Section 3313.666(B):

- (1) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (2) A procedure for responding to and investigating any reported incident;
- (3) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (4) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Mary Taylor, CPA
Auditor of State

August 25, 2010



Mary Taylor, CPA
Auditor of State

OTSEGO LOCAL SCHOOL DISTRICT

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 9, 2010**