



Mary Taylor, CPA
Auditor of State

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Otsego Local School District
Wood County
18505 Tontogany Creek Road
P. O. Box 290
Tontogany, Ohio 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, 2006, 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, 2006, 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 January 30, 2007, 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.

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

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



Mary Taylor, CPA
Auditor of State

January 30, 2007

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. 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 2006 were as follows:

- Net assets increased \$759,849, or approximately 16 percent. For fiscal year 2006, revenues increased from a number of sources while expenses were less than the prior fiscal year. This combination resulted in the positive change in net assets.
- General revenues were \$13,746,456, or 85 percent of all governmental activities revenues, and demonstrate the School District's significant dependence on property and income taxes as well as State funding.

Using the Basic Financial Statements

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

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

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

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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

Reporting the School District's Most Significant Funds

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

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

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

Table 1
Net Assets

	Governmental Activities	
	2006	2005
<u>Assets</u>		
Current and Other Assets	\$17,280,961	\$25,739,080
Capital Assets, Net	17,361,064	5,489,201
Total Assets	<u>34,642,025</u>	<u>31,228,281</u>
<u>Liabilities</u>		
Current and Other Liabilities	9,025,404	6,433,232
Long-Term Liabilities	20,249,965	20,188,242
Total Liabilities	<u>29,275,369</u>	<u>26,621,474</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	4,385,791	4,596,307
Restricted	901,302	7,192
Unrestricted	79,563	3,308
Total Net Assets	<u>\$5,366,656</u>	<u>\$4,606,807</u>

A review of the above table reveals some significant changes in assets and liabilities from the prior fiscal year. Current and other assets decreased as bond proceeds were spent for construction on the new high school. Much of this is offset by a corresponding increase in capital assets associated with construction in progress. Also as a result of construction activities, there was over \$2 million in liabilities outstanding at fiscal year end for contracts and retainage and is reflected in the increase in current and other liabilities.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005:

Table 2
Change in Net Assets

	Governmental Activities	
	2006	2005
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$1,065,607	\$890,693
Operating Grants, Contributions, and Interest	1,417,388	990,728
Capital Grants and Contributions	32,385	15,731
Total Program Revenues	<u>2,515,380</u>	<u>1,897,152</u>
General Revenues		
Property Taxes	4,937,555	4,200,085
Income Taxes	2,132,251	1,967,526
Grants and Entitlements	5,936,820	6,129,250
Interest	551,224	488,011
Gifts and Donations	1,900	9,302
Miscellaneous	186,706	225,108
Total General Revenues	<u>13,746,456</u>	<u>13,019,282</u>
Total Revenues	<u>16,261,836</u>	<u>14,916,434</u>
<u>Expenses</u>		
Instruction:		
Regular	6,437,137	7,424,937
Special	1,892,922	2,032,479
Vocational	450,706	431,429
Support Services:		
Pupils	715,495	695,399
Instructional Staff	641,746	435,013
Board of Education	31,707	23,362
Administration	1,321,046	1,145,171
Fiscal	372,164	345,189
Business	946	263
Operation and Maintenance of Plant	868,807	909,142
Pupil Transportation	806,079	702,382
Non-Instructional Services	587,345	530,423
Extracurricular Activities	379,415	364,978
Interest and Fiscal Charges	996,472	955,738
Total Expenses	<u>15,501,987</u>	<u>15,995,905</u>
Increase (Decrease) in Net Assets	759,849	(1,079,471)
Net Assets at Beginning of Year	4,606,807	5,686,278
Net Assets at End of Year	<u>\$5,366,656</u>	<u>\$4,606,807</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Overall revenues increased by 9 percent from the prior fiscal year and both program and general revenues reflect moderate increases. A large portion of the increase can be seen in the increase in property taxes as both Wood and Henry Counties underwent property reappraisals.

While expenses remained very comparable to fiscal year 2005, there was a slight decrease in expenses of 3 percent which contributes to the increase in net assets. As is to be expected, instruction programs are the School District's largest expense, accounting for 57 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, 76 percent of all of the School District's expenses are related to the functions of delivering education and maintaining facilities.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$6,437,137	\$7,424,937	\$5,781,092	\$6,875,584
Special	1,892,922	2,032,479	991,010	1,452,691
Vocational	450,706	431,429	382,991	360,981
Support Services:				
Pupils	715,495	695,399	703,083	662,229
Instructional Staff	641,746	435,013	641,746	435,013
Board of Education	31,707	23,362	31,707	23,362
Administration	1,321,046	1,145,171	1,321,046	1,124,942
Fiscal	372,164	345,189	372,164	345,189
Business	946	263	946	263
Operation and Maintenance of Plant	868,807	909,142	868,807	909,142
Pupil Transportation	806,079	702,382	775,022	686,651
Non-Instructional Services	587,345	530,423	(78,858)	33,925
Extracurricular Activities	379,415	364,978	199,379	233,043
Interest and Fiscal Charges	996,472	955,738	996,472	955,738
Total Expenses	<u>\$15,501,987</u>	<u>\$15,995,905</u>	<u>\$12,986,607</u>	<u>\$14,098,753</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

As demonstrated in the above table, expenses were very comparable for fiscal year 2006 and 2005; however, there was a somewhat significant change in the net cost of services as program revenues increased in fiscal year 2006 and supported a larger share of the costs of programs. The table also demonstrates that several of the School District's programs are substantially provided for through program revenues. For instance, 47 percent of the special instruction program costs were provided for through program revenues, those primarily being operating grants restricted for special instruction purposes. For fiscal year 2006, all of the costs of the non-instructional programs were paid for through cafeteria sales, state and federal subsidies, and donated commodities for food service operations. Extracurricular activities costs are largely supported by music and athletic fees, ticket sales, and gate receipts at musical and athletic events.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. While the change in fund balance in the General Fund was not significant, both the Bond Retirement and Building funds had sizable changes. The Bond Retirement fund accumulates resources for the future payment of principal and interest on debt. Currently, tax collections are in excess of current debt payment requirements. The decrease in the Building Fund was the result of payments to contractors for the new construction.

General Fund Budgeting Highlights

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

During fiscal year 2006, the School District amended its General Fund budget as needed. The decrease in revenues from the original budget to the final budget was largely the result of an over estimation of miscellaneous revenues in the original budget. Changes from the final budget to actual revenues received were not significant. Changes from the original budget to the final budget and from the final budget to actual expenditures were not significant; however, actual expenditures were almost 4 percent lower than estimates due to conservative spending.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$17,361,064 invested in capital assets (net of accumulated depreciation) for governmental activities, triple the amount from the prior fiscal year. This increase is due to construction of the new high school. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

At June 30, 2006, the School District had outstanding general obligation bonds, in the amount of \$19,282,035. These bonds will not be fully retired until fiscal year 2033. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Current Issues

Otsego Local School District is a rural school district located in Wood County and relies heavily on the local taxpayer's for General Fund revenue. Approximately 8 percent of the School District's local revenue came from tangible personal property tax. The systematic elimination of this tax under HB 66 and the State's temporary reimbursement of the loss is quite concerning to the School District. Regardless of the amount compared to the overall local revenue, it is still a loss that most likely will be passed onto the local taxpayer. A 6.2 mill bond levy was approved by School District residents in March 2004. Proceeds from this levy are for renovations to the existing elementary schools, construction of a new high school and auditorium, and demolition of the current middle school upon completion of the new high school.

The School District has experienced mild increases in enrollment the last several years. The School District serves just over 1730 students and employs one hundred-three teachers. Currently the School District is negotiating a new agreement with the certified staff. The contract with the classified staff was recently completed. The one year agreement provides for a 2.75 percent salary increase.

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

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 Treasurer, Otsego Local School District, 18505 Tontogany Creek Road, PO Box 290, Tontogany, Ohio 43565-0290.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Net Assets
June 30, 2006**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$10,022,382
Cash and Cash Equivalents with Fiscal Agents	195
Cash and Cash Equivalents with Escrow Agents	602,713
Accounts Receivable	10,258
Accrued Interest Receivable	66,794
Intergovernmental Receivable	37,301
Income Taxes Receivable	1,019,320
Prepaid Items	946
Inventory Held for Resale	5,764
Materials and Supplies Inventory	2,027
Property Taxes Receivable	5,275,208
Unamortized Issuance Cost	238,053
Nondepreciable Capital Assets	13,000,688
Depreciable Capital Assets, Net	<u>4,360,376</u>
Total Assets	<u>34,642,025</u>
 <u>Liabilities:</u>	
Accounts Payable	58,860
Contracts Payable	1,995,051
Accrued Wages and Benefits Payable	1,040,202
Intergovernmental Payable	328,603
Matured Compensated Absences Payable	54,870
Retainage Payable	620,945
Deferred Revenue	4,854,790
Accrued Interest Payable	72,083
Long-Term Liabilities:	
Due Within One Year	396,609
Due in More Than One Year	<u>19,853,356</u>
Total Liabilities	<u>29,275,369</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,385,791
Restricted For:	
Capital Projects	828,980
Public School Support	16,130
Athletics and Music	44,486
Other Purposes	11,706
Unrestricted	<u>79,563</u>
Total Net Assets	<u><u>\$5,366,656</u></u>

See Accompanying Notes to Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$6,437,137	\$427,650	\$228,395		(\$5,781,092)
Special	1,892,922	10,827	891,085		(991,010)
Vocational	450,706		67,715		(382,991)
Support Services:					
Pupils	715,495		12,412		(703,083)
Instructional Staff	641,746				(641,746)
Board of Education	31,707				(31,707)
Administration	1,321,046				(1,321,046)
Fiscal	372,164				(372,164)
Business	946				(946)
Operation and Maintenance of Plant	868,807				(868,807)
Pupil Transportation	806,079			\$9,502	(775,022)
Non-Instructional Services	587,345	498,473	167,730		78,858
Extracurricular Activities	379,415	128,657	28,496	22,883	(199,379)
Interest and Fiscal Charges	996,472				(996,472)
Total Governmental Activities	<u>\$15,501,987</u>	<u>\$1,065,607</u>	<u>\$1,417,388</u>	<u>\$32,385</u>	<u>(12,986,607)</u>

General Revenues:

Property Taxes Levied for General Purposes	3,727,761
Property Taxes Levied for Debt Service	1,056,530
Property Taxes Levied for Permanent Improvements	153,264
Income Taxes Levied for General Purposes	2,132,251
Grants and Entitlements not Restricted to Specific Programs	5,936,820
Interest	551,224
Gifts and Donations	1,900
Miscellaneous	186,706
Total General Revenues	<u>13,746,456</u>

Change in Net Assets 759,849

Net Assets at Beginning of Year - Restated (Note 3) 4,606,807

Net Assets at End of Year \$5,366,656

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	General	Bond Retirement	Building	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$1,644,131	\$289,042	\$7,688,601	\$400,608	\$10,022,382
Cash and Cash Equivalents with Fiscal Agents				195	195
Accounts Receivable	10,239			19	10,258
Accrued Interest Receivable	7,002		59,792		66,794
Interfund Receivable		5,000			5,000
Intergovernmental Receivable	6,644			30,657	37,301
Income Taxes Receivable	1,019,320				1,019,320
Prepaid Items	946				946
Inventory Held for Resale				5,764	5,764
Materials and Supplies Inventory				2,027	2,027
<u>Restricted Assets:</u>					
Cash and Cash Equivalents with Escrow Agents			602,713		602,713
Property Taxes Receivable	4,012,240	1,101,963		161,005	5,275,208
Total Assets	\$6,700,522	\$1,396,005	\$8,351,106	\$600,275	\$17,047,908
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities</u>					
Accounts Payable	\$41,765		\$9,891	\$7,204	\$58,860
Contracts Payable			1,994,263	788	1,995,051
Accrued Wages and Benefits Payable	977,196			63,006	1,040,202
Interfund Payable				5,000	5,000
Intergovernmental Payable	299,618		11	28,974	328,603
Matured Compensated Absences Payable	54,870				54,870
Retainage Payable			18,232		18,232
<u>Payable from Restricted Assets:</u>					
Retainage Payable			602,713		602,713
Deferred Revenue	3,903,380	\$1,031,672	27,604	151,399	5,114,055
Total Liabilities	5,276,829	1,031,672	2,652,714	256,371	9,217,586
<u>Fund Balances:</u>					
Reserved for Property Taxes	231,112	69,297		9,341	309,750
Reserved for Encumbrances	44,375		4,645,661	184,696	4,874,732
<u>Unreserved, Reported in:</u>					
General Fund	1,148,206				1,148,206
Special Revenue Funds				22,742	22,742
Debt Service Fund		295,036			295,036
Capital Projects Funds			1,052,731	127,125	1,179,856
Total Fund Balances	1,423,693	364,333	5,698,392	343,904	7,830,322
Total Liabilities and Fund Balances	\$6,700,522	\$1,396,005	\$8,351,106	\$600,275	\$17,047,908

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2006**

Total Governmental Fund Balances		\$7,830,322
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		17,361,064
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:</p>		
Accounts Receivable	9,375	
Accrued Interest Receivable	27,696	
Income Taxes Receivable	119,695	
Property Taxes Receivable	102,499	
		259,265
<p>Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.</p>		238,053
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p>		
Accrued Interest Payable	(72,083)	
General Obligation Bonds Payable	(19,282,035)	
Compensated Absences Payable	(967,930)	
		(20,322,048)
Net Assets of Governmental Activities		\$5,366,656

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

	General	Bond Retirement	Building	Other Governmental	Total Governmental Funds
Revenues:					
Property Taxes	\$3,740,781	\$1,060,002		\$154,349	\$4,955,132
Income Taxes	2,133,358				2,133,358
Intergovernmental	6,233,960	133,081		980,539	7,347,580
Interest	141,468		\$380,774		522,242
Tuition and Fees	544,010				544,010
Extracurricular Activities	8,545			120,112	128,657
Charges for Services				383,565	383,565
Gifts and Donations	11,300		22,883	19,096	53,279
Miscellaneous	151,783		10,295	24,628	186,706
Total Revenues	12,965,205	1,193,083	413,952	1,682,289	16,254,529
Expenditures:					
Current:					
Instruction:					
Regular	6,533,082		6,393	110,985	6,650,460
Special	1,234,960			610,666	1,845,626
Vocational	447,948			4,000	451,948
Support Services:					
Pupils	657,080			19,129	676,209
Instructional Staff	609,505			23,683	633,188
Board of Education	31,707				31,707
Administration	1,171,204			58,467	1,229,671
Fiscal	342,678	13,088		4,738	360,504
Business	946				946
Operation and Maintenance of Plant	850,501		1,590	10,190	862,281
Pupil Transportation	807,662			2,035	809,697
Non-Instructional Services				585,948	585,948
Extracurricular Activities	236,981			128,563	365,544
Capital Outlay			11,658,927	10,250	11,669,177
Debt Service:					
Principal Retirement		155,000			155,000
Interest and Fiscal Charges		909,034			909,034
Total Expenditures	12,924,254	1,077,122	11,666,910	1,568,654	27,236,940
Excess of Revenues Over (Under) Expenditures	40,951	115,961	(11,252,958)	113,635	(10,982,411)
Other Financing Sources (Uses):					
Transfers In				66,000	66,000
Transfers Out	(66,000)				(66,000)
Total Other Financing Sources (Uses)	(66,000)			66,000	
Changes in Fund Balances	(25,049)	115,961	(11,252,958)	179,635	(10,982,411)
Fund Balances at Beginning of Year - Restated (Note 3)	1,448,742	248,372	16,951,350	164,269	18,812,733
Fund Balances at End of Year	\$1,423,693	\$364,333	\$5,698,392	\$343,904	\$7,830,322

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

Changes in Fund Balances - Total Governmental Funds		(\$10,982,411)
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p> <p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year:</p>		
Capital Outlay - Nondepreciable Capital Assets	11,909,676	
Capital Outlay - Depreciable Capital Assets	349,214	
Depreciation	(304,039)	11,954,851
<p>The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities.</p>		
		(82,988)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Property Taxes	(17,577)	
Income Taxes	(1,107)	
Intergovernmental	(12,366)	
Interest	28,982	
Tuition and Fees	9,375	7,307
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		155,000
<p>Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. Premiums and discounts are reported as revenues/expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of net assets.</p>		
Accrued Interest Payable	(72,083)	
Annual Accretion on Capital Appreciation Bonds	(20,622)	
Amortization of Premium	9,700	
Amortization of Discount	(1,329)	(84,334)
<p>Issuance costs are reported as an expenditure when paid in the governmental funds, but is accrued on outstanding debt on the statement of net assets.</p>		
Amortization of Issuance Costs		(3,104)
<p>Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(204,472)
Change in Net Assets of Governmental Activities		\$759,849

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Revenues:				
Property Taxes	\$3,876,505	\$3,614,326	\$3,784,866	\$170,540
Income Taxes	2,112,967	2,112,967	2,035,620	(77,347)
Intergovernmental	6,160,297	6,160,297	6,233,960	73,663
Interest	86,619	68,383	140,541	72,158
Tuition and Fees	536,421	547,046	540,642	(6,404)
Extracurricular Activities	9,000	9,000	8,545	(455)
Gifts and Donations	8,200	8,200	11,300	3,100
Miscellaneous	758,218	65,278	57,419	(7,859)
Total Revenues	13,548,227	12,585,497	12,812,893	227,396
Expenditures:				
Current:				
Instruction:				
Regular	6,545,417	6,625,040	6,466,937	158,103
Special	1,336,269	1,268,418	1,243,319	25,099
Vocational	425,988	426,113	444,639	(18,526)
Support Services:				
Pupils	709,622	717,925	670,969	46,956
Instructional Staff	623,192	653,596	608,553	45,043
Board of Education	34,301	34,301	31,694	2,607
Administration	1,169,926	1,173,440	1,182,800	(9,360)
Fiscal	351,448	351,954	346,789	5,165
Business	1,100	1,100	723	377
Operation and Maintenance of Plant	1,002,935	1,002,912	898,741	104,171
Pupil Transportation	805,047	874,148	806,562	67,586
Extracurricular Activities	293,324	311,826	234,937	76,889
Total Expenditures	13,298,569	13,440,773	12,936,663	504,110
Excess of Revenues Over (Under) Expenditures	249,658	(855,276)	(123,770)	731,506
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	36,000	36,000	94,358	58,358
Refund of Prior Year Receipts	(20)	(20)	(1,825)	(1,805)
Advances In	2,017	2,017	2,017	
Transfers Out	(75,000)	(75,000)	(66,000)	9,000
Total Other Financing Sources (Uses)	(37,003)	(37,003)	28,550	65,553
Changes in Fund Balance	212,655	(892,279)	(95,220)	797,059
Fund Balance at Beginning of Year	1,566,514	1,566,514	1,566,514	
Prior Year Encumbrances Appropriated	85,159	85,159	85,159	
Fund Balance at End of Year	\$1,864,328	\$759,394	\$1,556,453	\$797,059

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
June 30, 2006**

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Interest	\$2,647
Gifts and Donations	1,012
Total Additions	<u>3,659</u>
<u>Deductions:</u>	
Non-Instructional	<u>5,714</u>
Change in Net Assets	(2,055)
Net Assets at Beginning of Year - Restated (Note 3)	<u>65,800</u>
Net Assets at End of Year	<u><u>\$63,745</u></u>

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$63,745	<u><u>\$63,016</u></u>
<u>Liabilities:</u>		
Due to Students		<u><u>\$63,016</u></u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	35,765	
Endowment	<u>27,980</u>	
Total Net Assets	<u><u>\$63,745</u></u>	

See Accompanying Notes to the Basic Financial Statements

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 336th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifty-nine classified employees, one hundred three certified teaching personnel, and seven administrative employees who provide services to one thousand seven hundred fifty-seven students and other community members. The School District currently operates three elementary schools, one middle school, and one comprehensive high school.

Reporting Entity

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

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

The School District participates in six jointly governed organizations, a related organization, and two insurance pools. These organizations are the Northwest Ohio Computer Association, Northern Buckeye Education Council, Penta County Career Center, Northwestern Ohio Educational Research Council, Inc., Northwest Ohio Regional Professional Development Center, Northwest Ohio Special Education Regional Resource Center, Weston Public Library, Wood County Insurance Consortium, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 21, 22, and 23 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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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, contributions, and interest 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 Building capital projects fund.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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, general long-term debt principal, interest, and related costs.

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is at the fund level for all funds. Budgetary allocations at the function and object level within 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 2006, investments were limited to a mutual fund, federal agency securities, and STAR Ohio. Investments are reported at fair value, which is based on quoted market prices, or at current share price for mutual funds. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was \$141,468, which includes \$38,851 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, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

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

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

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

N. Net Assets

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, there were no net assets restricted by enabling legislation.

O. Fund Balance Reserves and Designations

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 and encumbrances.

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

P. Interfund Transactions

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

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.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

R. 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, ACCOUNTING CHANGE, AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Change in Accounting Principles

For fiscal year 2006, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the School District's financial statements.

B. Accounting Change

In the prior fiscal year, the School District reported several funds incorrectly, made errors in reporting interfund activity, deferred revenue, and capital assets, and did not record the issuance costs, premium, or discount on capital appreciation bonds.

C. Restatement of Fund Balance/Net Assets

The restatement due to the above corrections had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Fund Balance at June 30, 2005	\$1,475,715	\$248,372	\$16,944,158	\$182,308	\$18,850,553
Change in Fund Structure	(31,973)		7,192	(13,039)	(37,820)
Interfund Activity	5,000			(5,000)	
Restated Fund Balance at June 30, 2005	<u>\$1,448,742</u>	<u>\$248,372</u>	<u>\$16,951,350</u>	<u>\$164,269</u>	<u>\$18,812,733</u>

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES, ACCOUNTING CHANGE, AND RESTATEMENT OF FUND BALANCE/NET ASSETS – (CONTINUED)

The restatement had the following effect on net assets.

	Total Governmental Activities	Private Purpose Trust
Net Assets at June 30, 2005	\$4,568,716	\$27,980
Change in Fund Structure	(37,820)	37,820
Deferred Revenue	1,160	
Capital Assets	(549,870)	
Accumulated Depreciation	1,033,858	
Capital Appreciation Bonds - Issuance Costs	241,157	
Capital Appreciation Bonds - Premium	(753,696)	
Capital Appreciation Bonds - Discount	103,302	
Adjusted Governmental Activities Net Assets at June 30, 2005	\$4,606,807	
Adjusted Fiduciary Net Assets at June 30, 2005		\$65,800

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2006, the Food Service, EMIS, Public Preschool, Title I, and Title II-A special revenue funds had deficit fund balances, in the amount of \$47,250, \$333, \$7, \$284, and \$134, 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

For the fiscal year ended June 30, 2006, the Food Service special revenue fund and the Building capital projects fund had expenditures in excess of appropriations, in the amount of \$5,632 and \$168,702, respectively. The Treasurer will review budgeted resources to ensure they are sufficient for 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).

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING – (CONTINUED)

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

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

Changes in Fund Balance	
GAAP Basis	(\$25,049)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received in Cash FY 2006	1,094,223
Accrued FY 2006, Not Yet Received in Cash	(1,152,065)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,299,171)
Accrued FY 2006, Not Yet Paid in Cash	1,373,449
Cash Adjustments:	
Unrecorded Activity FY 2006	(112)
Prepaid Items	(946)
Advances In	2,017
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(87,566)
Budget Basis	(\$95,220)

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.

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

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.

Investments

As of June 30, 2006, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Mutual Fund	\$463,158	average 46 days
Federal Home Loan Mortgage Corporation Notes	398,524	8/30/06
Federal Home Loan Mortgage Corporation Notes	196,094	3/16/07
Federal Home Loan Mortgage Corporation Notes	539,286	5/7/07
Federal Home Loan Mortgage Corporation Notes	195,563	9/15/07
Federal Home Loan Bank Bonds	495,940	11/13/06
Federal Home Loan Bank Bonds	98,954	4/20/07
Federal Home Loan Bank Bonds	587,250	5/21/07
Federal Home Loan Bank Bonds	295,687	6/28/07
Federal Home Loan Bank Bonds	98,125	8/15/07
Federal Home Loan Bank Bonds	156,125	8/17/07
Federal Home Loan Bank Notes	197,250	7/5/07
Federal Home Loan Bank Notes	295,922	7/6/07
Federal Farm Credit Bank Bonds	194,875	6/18/07
Federal National Mortgage Association Notes	1,099,142	7/15/06
Federal National Mortgage Association Notes	698,033	10/15/06
Federal National Mortgage Association Notes	495,155	12/28/06
Federal National Mortgage Association Notes	294,516	3/8/07
Federal National Mortgage Association Notes	196,500	4/18/07
Federal National Mortgage Association Notes	195,844	4/26/07
Federal National Mortgage Association Notes	197,031	5/17/07
Federal National Mortgage Association Notes	98,750	7/15/07
Federal National Mortgage Association Notes	145,500	10/12/07
STAR Ohio	<u>145,052</u>	average 34.8 days
Total Investments	<u><u>\$7,778,276</u></u>	

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS – (CONTINUED)

All of the federal agency securities and the mutual fund carry a rating of AAA by Moody's, Fitch, or Standards & Poor's. STAR Ohio carries a rating of AAA by Standards and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must consist of securities listed in items 1 and 2 on page 30 or repurchase agreements secured by such obligations. The School District has no investment policy dealing with credit risk beyond the requirements of State statute.

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

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Mortgage Corporation	\$1,329,467	17.1
Federal Home Loan Bank	2,225,253	28.6
Federal Farm Credit Bank	194,875	2.5
Federal National Mortgage Association	3,420,471	44.0

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Various School Districts	\$5,024
Bureau of Workers Compensation	1,620
Total General Fund	6,644
Other Governmental Funds	
Title I	20,242
Title II-A	10,415
Total Governmental Activities	<u>\$37,301</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30; however, this settlement was not received by the School District within fiscal year 2006.

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 9 - PROPERTY TAXES – (CONTINUED)

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 and the late personal property tax settlement were levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$231,112 in the General Fund, \$69,297 in the Bond Retirement debt service fund, and \$9,341 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2005, was \$282,107 in the General Fund, \$88,530 in the Bond Retirement debt service fund, and \$12,391 in the Permanent Improvement capital projects fund.

The late tax settlement made by the counties for fiscal year 2006 was \$6,910 in the General Fund, \$994 in the Bond Retirement debt service fund, and \$265 in the Permanent Improvement capital projects fund.

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

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$158,655,970	86.73%	\$178,521,940	88.16%
Industrial/Commercial	11,836,900	6.47	13,436,780	6.64
Public Utility	6,683,100	3.65	6,477,600	3.20
Tangible Personal	5,757,925	3.15	4,044,591	2.00
Total Assessed Value	<u>\$182,933,895</u>	<u>100.00%</u>	<u>\$202,480,911</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$52.80		\$52.50	

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$143,659			\$143,659
Construction in Progress	947,353	\$11,909,676		12,857,029
Total Nondepreciable Capital Assets	<u>1,091,012</u>	<u>11,909,676</u>		<u>13,000,688</u>
Depreciable Capital Assets				
Land Improvements	532,452			532,452
Buildings and Building Improvements	5,520,575	219,290	(\$99,112)	5,640,753
Furniture, Fixtures, and Equipment	688,853	59,424	(33,537)	714,740
Vehicles	1,086,193	70,500	(34,067)	1,122,626
Total Depreciable Capital Assets	<u>7,828,073</u>	<u>349,214</u>	<u>(166,716)</u>	<u>8,010,571</u>
Less Accumulated Depreciation				
Land Improvements	(143,607)	(19,732)		(163,339)
Buildings and Building Improvements	(2,268,694)	(171,092)	24,304	(2,415,482)
Furniture, Fixtures, and Equipment	(451,285)	(53,201)	25,357	(479,129)
Vehicles	(566,298)	(60,014)	34,067	(592,245)
Total Accumulated Depreciation	<u>(3,429,884)</u>	<u>(304,039)</u>	<u>83,728</u>	<u>(3,650,195)</u>
Depreciable Capital Assets, Net	<u>4,398,189</u>	<u>45,175</u>	<u>(82,988)</u>	<u>4,360,376</u>
Governmental Activities Capital Assets, Net	<u>\$5,489,201</u>	<u>\$11,954,851</u>	<u>(\$82,988)</u>	<u>\$17,361,064</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 10 - CAPITAL ASSETS – (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$141,784
Special	24,945
Vocational	1,725
Support Services:	
Instructional Staff	3,666
Administration	13,809
Fiscal	2,831
Operation and Maintenance of Plant	23,361
Pupil Transportation	54,652
Non-Instructional Services	4,712
Extracurricular Activities	32,554
Total Depreciation Expense	<u>\$304,039</u>

NOTE 11 - INTERFUND ASSETS/LIABILITIES

At June 30, 2006, the Bond Retirement debt service fund had an interfund receivable from other governmental funds, in the amount of \$5,000, for a short-term loan.

NOTE 12 - 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 2006, the School District contracted for the following insurance coverage:

Coverage provided by Indiana Insurance
is as follows:

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

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 12 - RISK MANAGEMENT – (CONTINUED)

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 Insurance Consortium (WCIC), 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 WCIC for employee medical and dental benefits. WCIC is responsible for the management and operations of the program and the payment of all claims. Upon withdrawal from the WCIC, 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 2006, 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. 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 13 - CONTRACTUAL COMMITMENTS

As of June 30, 2006, the School District had contractual commitments as follows:

<u>Company</u>	<u>Total Contract</u>	<u>Contract Used</u>	<u>Contract Remaining</u>
LR Babcock	\$2,927,166	\$2,370,680	\$556,486
Pro-Onsite Technologies	165,768	128,429	37,339
Mel Lanzer	10,261,944	7,579,379	2,682,565
Woolace Electric	1,573,085	1,206,205	366,880
Accel Fire Systems	197,900	133,644	64,256

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004, was \$774,564, \$747,293 and \$597,696, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$3,891 made by the School District and \$3,958 made by plan members.

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, was \$141,461, \$191,294, and \$171,990, respectively; 38 percent has been contributed for the fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

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, 2006, one of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$59,886.

**OTSEGO LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information available). For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

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

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$68,049 for fiscal year 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will not be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 16 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is 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 280 days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of seventy days for both certified and classified employees.

B. Health Care Benefits

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Amounts Due Within One Year
General Obligation Bonds					
2004 School Facilities Construction and Improvement					
Serial Bonds 5.0233%	\$3,865,000		\$140,000	\$3,725,000	\$235,000
Term Bonds 5 - 5.375%	14,300,000			14,300,000	
Capital Appreciation Bonds	235,000			235,000	
Accretion on Capital Appreciation Bonds	84,390	\$20,622		105,012	
Premium	753,696		9,700	743,996	
Discount	(103,302)	1,329		(101,973)	
1994 School Facilities Improvement 5.0983%	290,000		15,000	275,000	20,000
Total General Obligation Bonds	19,424,784	21,951	164,700	19,282,035	255,000
Compensated Absences Payable	763,458	272,489	68,017	967,930	141,609
Total Governmental Activities Long-Term Liabilities	<u>\$20,188,242</u>	<u>\$294,440</u>	<u>\$232,717</u>	<u>\$20,249,965</u>	<u>\$396,609</u>

School Facilities Construction and Improvement Bonds FY 2004 - On June 17, 2004, the School District issued \$18,400,000 in voted general obligation bonds for constructing a new high school building. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$3,865,000, \$14,300,000, and \$235,000, respectively. The bonds were issued for a twenty-nine year period, with final maturity in fiscal year 2033. The bonds are being retired through the Bond Retirement debt service fund. As of June 30, 2006, \$5,219,701 of these proceeds had not yet been spent.

The term bonds maturing on December 1, 2018, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date. The mandatory redemption is to occur on December 1, 2017, in the principal amount of \$590,000. The remaining principal, in the amount of \$620,000, will mature at stated maturity.

The term bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date. The mandatory redemption is to occur on December 1, 2019, in the principal amount of \$655,000. The remaining principal, in the amount of \$690,000, will mature at stated maturity.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date. The mandatory redemption is to occur on December 1, 2021, in the principal amount of \$730,000. The remaining principal, in the amount of \$765,000, will mature at stated maturity.

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date. The mandatory redemption is to occur on December 1, 2023, in the principal amount of \$810,000. The remaining principal, in the amount of \$850,000, will mature at stated maturity.

The terms bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date. The mandatory redemption is to occur on December 1 in each of the years according to the following schedule:

Year	Amount
2025	\$895,000
2026	940,000
2027	990,000

The remaining principal, in the amount of \$1,040,000, will mature at stated maturity.

The terms bonds maturing on December 1, 2032, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date. The mandatory redemption is to occur on December 1 in each of the years according to the following schedule:

Year	Amount
2029	\$1,090,000
2030	1,150,000
2031	1,210,000

The remaining principal, in the amount of \$1,275,000, will mature at stated maturity.

The serial bonds maturing on or after December 1, 2015, are subject to redemption, at the option of the School District, either in whole or in part, on any interest payment date on or after December 1, 2014, at the redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

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 2006, \$20,622 was accreted on the capital appreciation bonds for a total outstanding bond value of the capital appreciation bonds of \$105,012 at fiscal year end.

School Facilities Improvement Bonds FY 1994 - 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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS – (CONTINUED)

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

The School District's overall debt margin was (\$1,249,694) with an unvoted debt margin of \$192,059 at June 30, 2006. 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, 2006, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds			Interest	Total
	Serial	Term	Capital		
2007	\$235,000			\$890,571	\$1,125,571
2008	315,000			882,909	1,197,909
2009	335,000			873,159	1,208,159
2010	370,000			862,029	1,232,029
2011			\$125,976	1,134,949	1,260,925
2012-2016	1,910,000		109,024	4,443,540	6,462,564
2017-2021	560,000	\$2,555,000		3,517,038	6,632,038
2022-2026		4,050,000		2,563,764	6,613,764
2027-2031		5,210,000		1,378,804	6,588,804
2032-2033		2,485,000		135,316	2,620,316
	<u>\$3,725,000</u>	<u>\$14,300,000</u>	<u>\$235,000</u>	<u>\$16,682,079</u>	<u>\$34,942,079</u>

Fiscal Year Ending June 30,	General Obligation Bonds		
	Serial	Interest	Total
2007	\$20,000	\$13,250	\$33,250
2008	20,000	12,250	32,250
2009	20,000	11,250	31,250
2010	20,000	10,250	30,250
2011	25,000	9,125	34,125
2012-2016	135,000	26,375	161,375
2017	35,000	875	35,875
	<u>\$275,000</u>	<u>\$83,375</u>	<u>\$358,375</u>

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 18 - 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 2006.

	Textbooks	Capital Improvements
Balance June 30, 2005	(\$431,922)	
Current Year Set Aside Requirement	216,434	\$216,434
Current Year Offsets		(181,256)
Qualifying Expenditures	(249,184)	(102,400)
Reserve Balance June 30, 2006	(\$464,672)	(\$67,222)
Amount Carried Forward to Fiscal Year 2007	(\$464,672)	

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 19 - INTERFUND TRANSFERS

During fiscal year 2006, the General Fund made transfers to other governmental funds, in the amount of \$66,000, to subsidize various programs in other funds.

NOTE 20 - 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 \$35,765 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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

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

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2006, the School District paid \$44,601 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

C. Penta County Career Center

The Penta County 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 the Penta County Career Center, 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS – (CONTINUED)

D. Northwestern Ohio Educational Research Council, Inc.

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

E. Northwest Ohio Regional Professional Development Center

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

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

F. Northwest Ohio Special Education Regional Resource Center

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

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 22 - 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 23 - INSURANCE POOLS

A. Wood County Insurance Consortium

The Wood County Insurance Consortium (WCIC) 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. WCIC 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 WCIC.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the WCIC 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.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

NOTE 24 - 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, 2006.

B. Litigation

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

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**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education:</i>		
Food Donation Program		10.550
National School Lunch Program	050724-LLP4-2005 050724-LLP4-2006	10.555
Total U.S. Department of Agriculture		
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	050724-C1-S1-2005 050724-C1-S1-2006	84.010
Special Education Grants to States	050724-6BSF-2006	84.027
Safe and Drug Free Schools and Communities State Grant	050724-DR-S1-2006	84.186
State Grants for Innovative Programs	050724-C2-S1-2005 050724-C2-S1-2006	84.298
Education Technology State Grants	050724-TJ-S1-2005 050724-TJ-S1-2006	84.318
Improving Teacher Quality State Grants	050724-TR-S1-2005 050724-TR-S1-2006	84.367
Total Ohio Department of Education		
Total Federal Awards Expenditures		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
	\$ 54,073		\$ 54,073
\$ 16,637		\$ 16,637	
88,182		88,182	
<u>104,819</u>		<u>104,819</u>	
104,819	54,073	104,819	54,073
24,452		24,503	
135,293		135,293	
<u>159,745</u>		<u>159,796</u>	
382,485		382,485	
7,019		7,019	
-		113	
6,754		6,681	
<u>6,754</u>		<u>6,794</u>	
31		31	
2,762		2,762	
<u>2,793</u>		<u>2,793</u>	
14,192		15,497	
63,506		63,496	
<u>77,698</u>		<u>78,993</u>	
636,494		637,880	
\$ 741,313	\$ 54,073	\$ 742,699	\$ 54,073

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – US DEPARTMENT OF AGRICULTURE PROGRAMS

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

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



Mary Taylor, CPA

Auditor of State

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

Otsego Local School District
Wood County
18505 Tontogany Creek Road
P.O. Box 290
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 (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2007. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 30, 2007, we reported a matter related to internal control over financial reporting we did not deem a reportable condition.

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*. In a separate letter to the District's management dated January 30, 2007, we reported a matter related to noncompliance we deemed immaterial.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 30, 2007



Mary Taylor, CPA

Auditor of State

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

Otsego Local School District
Wood County
18505 Tontogany Creek Road
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 (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 its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Mary Taylor, CPA
Auditor of State

January 30, 2007

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States CFDA # 84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

OTSEGO LOCAL SCHOOL DISTRICT

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2007**