

**OTTAWA HILLS LOCAL SCHOOL DISTRICT
LUCAS COUNTY**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Ottawa Hills Local School District
3600 Indian Rd.
Ottawa Hills, OH 43606-2425

We have reviewed the *Independent Auditor's Report* of the Ottawa Hills Local School District, Lucas County, prepared by LublinSussman Group, LLP, for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 13, 2006

This Page is Intentionally Left Blank.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
<i>Governmental Funds:</i>	
Balance Sheet.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	16
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets.....	18
Notes to the Basic Financial Statements	19
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis):	
General Fund	43
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	44
Schedule of Findings.....	46
Schedule of Prior Audit Findings	49

LublinSussman Group LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statement of the governmental activities, each major fund, and the aggregate remaining fund information of Ottawa Hill Local School District, Lucas County, Ohio, (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Ottawa Hills Local School District, Lucas County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

www.lublinsussman.com

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

Branch Office
621 Croghan Street
Fremont, Ohio 43420
(419) 332-1513

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

Ottawa Hills Local School District
Lucas County
Independent Auditor's Report

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

LublinerJussman Group LLP

March 22, 2006
Toledo, Ohio

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

The discussion and analysis of Ottawa Hills Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- Net assets increased \$600,909, which represents a 14.61% increase from 2003.
- General revenues accounted for \$11,220,484 in revenue or 93% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$850,639 or 7% of total revenues of \$12,071,123.
- The District had \$11,470,214 in expenses related to governmental activities; only \$850,639 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$11,220,484 were adequate to provide for these programs.
- The District's general fund had \$10,282,514 in revenues and \$9,809,139 in expenditures. The general fund's fund balance increased \$333,594 to \$4,741,063. Although the General Fund expenditures increased significantly, overall revenues continued to exceed expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2004 compared to 2003.

	Governmental Activities		Increase (Decrease)
	2004	2003	
Current and other assets	\$16,110,443	\$15,590,569	\$519,874
Capital assets, Net	4,502,146	4,488,367	13,779
Total assets	20,612,589	20,078,936	533,653
Long-term debt outstanding	5,989,869	6,219,303	(229,434)
Other liabilities	9,909,586	9,747,408	162,178
Total liabilities	15,899,455	15,966,711	(67,256)
Net assets			
Invested in capital assets, net of related debt	(397,854)	(631,633)	233,779
Restricted	1,083,524	1,095,147	(11,623)
Unrestricted	4,027,464	3,648,711	378,753
Total net assets	\$4,713,134	\$4,112,225	\$600,909

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004 compared to 2003:

	Governmental	
	Activities	
	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues:		
Charges for Services and Sales	\$319,171	\$515,717
Operating Grants and Contributions	531,468	445,346
General revenues:		
Property Taxes	8,168,770	7,950,459
Grants and Entitlements	2,863,861	2,885,299
Other	187,853	148,781
Total revenues	<u>12,071,123</u>	<u>11,945,602</u>
Program Expenses		
Instruction	7,024,135	6,743,085
Support Services:		
Pupils	435,676	431,307
Instructional Staff	525,429	411,448
Board of Education	30,882	16,877
Administration	786,665	831,068
Fiscal Services	362,108	330,722
Operation and Maintenance of Plant	1,119,629	1,148,316
Pupil Transportation	51,695	46,792
Central	55,541	34,879
Community Services	335,620	310,887
Extracurricular Activities	505,710	507,465
Debt Service:		
Interest and Fiscal Charges	237,124	247,374
Total expenses	<u>11,470,214</u>	<u>11,060,220</u>
Total Change in Net Assets	<u>600,909</u>	<u>885,382</u>
Beginning Net Assets	<u>4,112,225</u>	<u>3,226,843</u>
Ending Net Assets	<u><u>\$4,713,134</u></u>	<u><u>\$4,112,225</u></u>

Governmental Activities

Net assets of the District's governmental activities increased \$600,909. Although expenses for the District's Governmental Activities increased significantly, overall, revenues continued to exceed expenses.

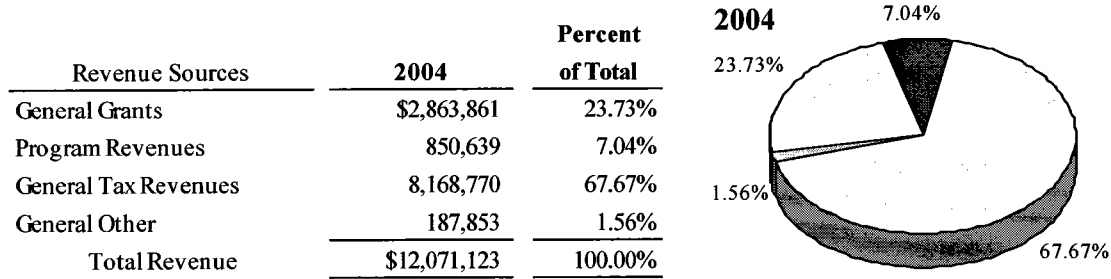
The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Property taxes made up 67.67% of revenues for governmental activities for Ottawa Hills Local Schools in fiscal year 2004. The District's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$5,973,002, which is greater than last year's balance of \$5,591,745. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	\$4,741,063	\$4,407,469	\$333,594
Other Governmental	1,231,939	1,184,276	47,663
Total	\$5,973,002	\$5,591,745	\$381,257

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

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$7,340,644	\$7,210,737	\$129,907
Tuition	12,292	1,439	10,853
Transportation Fees	3,795	2,150	1,645
Investment Earnings	64,553	125,500	(60,947)
Extracurricular Activities	53,780	52,495	1,285
Class Materials and Fees	41,271	41,795	(524)
Intergovernmental - State	2,760,674	2,770,291	(9,617)
All Other Revenue	5,505	12,894	(7,389)
Total	\$10,282,514	\$10,217,301	\$65,213

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

General Fund revenues in 2004 remained relatively stable increasing by less than 1% compared to fiscal year 2003.

	<u>2004</u> <u>Expenditures</u>	<u>2003</u> <u>Expenditures</u>	<u>Increase</u> <u>(Decrease)</u>
Instruction	\$6,493,500	\$6,111,985	\$381,515
Supporting Services:			
Pupils	424,527	434,976	(10,449)
Instructional Staff	384,270	324,513	59,757
Board of Education	30,882	16,877	14,005
Administration	698,665	787,242	(88,577)
Fiscal Services	348,937	313,927	35,010
Operation & Maintenance of Plant	1,018,948	989,016	29,932
Pupil Transportation	65,825	40,595	25,230
Central	49,541	14,879	34,662
Community Services	2,000	2,000	0
Extracurricular Activities	292,044	268,408	23,636
Total	<u><u>\$9,809,139</u></u>	<u><u>\$9,304,418</u></u>	<u><u>\$504,721</u></u>

The expenditures increased by \$504,721 or 5.42% compared to the prior year mostly due to an increase in instruction expenditures. The increase in instruction is mostly accounted for by services provided for specific learning disabilities.

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

During the course of fiscal year 2004 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue was \$10.1 million, below original budget estimates of \$10.2 million. The General Fund had an adequate fund balance to cover expenditures.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004 the District had \$4,502,146 net of accumulated depreciation invested in land, buildings, machinery, equipment and vehicles. The following table shows fiscal year 2003 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$743,629	\$743,629	\$0
Land Improvements	827,027	827,027	0
Buildings and Improvements	6,550,043	6,385,888	164,155
Machinery/Equipment and Furniture/Fixtures	835,841	788,701	47,140
Vehicles	131,966	154,532	(22,566)
Less: Accumulated Depreciation	(4,586,360)	(4,411,410)	(174,950)
Totals	\$4,502,146	\$4,488,367	\$13,779

The primary increase occurred in buildings and improvements and machinery/equipment and furniture/fixtures, which included the replacement of light fixtures and electrical equipment, ceiling improvements and the acquisition of new computers and a van.

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

Debt

At June 30, 2004, the District had \$4.9 million in bonds outstanding, \$235,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2004:

	2004	2003
Governmental Activities:		
General Obligation Bonds:		
School Improvement	\$4,900,000	\$5,120,000
Compensated Absences	1,089,869	1,099,303
Totals	\$5,989,869	\$6,219,303

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2004, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30,2004*

Unaudited

ECONOMIC FACTORS

The Ottawa Hills Local School District relies upon local property taxes and state foundation monies to fund its operations. In fiscal year 2004 the District received approximately 70.8% of its revenues from local property taxes, 17.4% from the state foundation program, 9.7% from the Homestead/Rollback exemption legislation, and the remaining 2.1% from other local sources. The District real estate value consists of 95.6% residential real estate, 3.1% commercial real estate, and 1.3% tangible personal property/public utilities personal property.

The District last passed a 1.9 mill continuing operating levy in November 2001 by a 65% margin. The District passed a 1.5 mill permanent improvement levy in November 2003 by a 74% margin. The permanent improvement levy will be levied for five years.

A 5.7 mill continuing operating levy is on the November 2004 ballot. The proposed levy is estimated to generate \$1,008,000 in additional property tax revenue.

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

REQUESTS FOR INFORMATION

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Net Assets **June 30, 2004**

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 2,760,518
Investments	3,665,565
Receivables:	
Taxes	9,593,447
Accounts	2,049
Interest	17,340
Prepaid Items	71,524
Capital Assets, Net	4,502,146
Total Assets	20,612,589
Liabilities:	
Accounts Payable	38,213
Accrued Wages and Benefits	729,703
Intergovernmental Payable	225,523
Deferred Revenue - Taxes	8,838,989
Accrued Interest Payable	77,158
Long Term Liabilities:	
Due Within One Year	292,431
Due in More Than One Year	5,697,438
Total Liabilities	15,899,455
Net Assets:	
Invested in Capital Assets, Net of Related Debt	(397,854)
Restricted For:	
Capital Projects	308,533
Debt Service	726,496
Other Purposes	48,495
Unrestricted	4,027,464
Total Net Assets	\$ 4,713,134

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction	\$ 7,024,135	\$ 117,833	\$ 54,038	\$ (6,852,264)
Support Services:				
Pupils	435,676	0	5,000	(430,676)
Instructional Staff	525,429	0	85,982	(439,447)
Board of Education	30,882	0	0	(30,882)
Administration	786,665	0	37,200	(749,465)
Fiscal Services	362,108	0	0	(362,108)
Operation and Maintenance of Plant	1,119,629	1,189	9,602	(1,108,838)
Pupil Transportation	51,695	3,795	0	(47,900)
Central	55,541	0	6,000	(49,541)
Community Services	335,620	0	333,646	(1,974)
Extracurricular Activities	505,710	196,354	0	(309,356)
Debt Service:				
Interest and Fiscal Charges	237,124	0	0	(237,124)
Total Governmental Activities	\$ 11,470,214	\$ 319,171	\$ 531,468	(10,619,575)
 General Revenues				
Property Taxes Levied for:				
General Purposes				7,370,207
Debt Service				458,706
Capital Outlay				339,857
Grants and Entitlements not Restricted to Specific Programs				2,863,861
Investment Earnings				67,488
Miscellaneous				120,365
Total General Revenues				11,220,484
Change in Net Assets				600,909
Net Assets Beginning of Year				4,112,225
Net Assets End of Year				\$ 4,713,134

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Balance Sheet Governmental Funds June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 1,537,879	\$ 1,222,639	\$ 2,760,518
Investments	3,665,565	0	3,665,565
Receivables:			
Taxes	8,636,039	957,408	9,593,447
Accounts	1,834	215	2,049
Interest	17,340	0	17,340
Interfund Loan Receivable	339	0	339
Prepaid Items	71,524	0	71,524
Total Assets	\$ 13,930,520	\$ 2,180,262	\$ 16,110,782
Liabilities:			
Accounts Payable	\$ 10,310	\$ 27,903	\$ 38,213
Accrued Wages and Benefits	727,992	1,711	729,703
Intergovernmental Payable	160,835	0	160,835
Interfund Loans Payable	0	339	339
Deferred Revenue - Taxes	8,284,695	918,370	9,203,065
Deferred Revenue	5,625	0	5,625
Total Liabilities	9,189,457	948,323	10,137,780
Fund Balances:			
Reserved for Encumbrances	5,563	126,246	131,809
Reserved for Prepaid Items	71,524	0	71,524
Reserved for Debt Service	0	762,562	762,562
Reserved for Property Taxes	340,615	37,846	378,461
Unreserved, Undesignated in:			
General Fund	4,323,361	0	4,323,361
Special Revenue Funds	0	153,219	153,219
Capital Projects Funds	0	152,066	152,066
Total Fund Balances	4,741,063	1,231,939	5,973,002
Total Liabilities and Funds Balances	\$ 13,930,520	\$ 2,180,262	\$ 16,110,782

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2004

Total Governmental Fund Balances \$ 5,973,002

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 4,502,146

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 369,701

Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the funds.

General Obligation Bonds Payable	(4,900,000)
Compensated Absences Payable	(1,089,869)
Accrued Interest Payable	(77,158)
Pension Obligation	(64,688)
	(6,131,715)

Net Assets of Governmental Activities **\$ 4,713,134**

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 7,340,644	\$ 762,347	\$ 8,102,991
Tuition	12,292	0	12,292
Transportation Fees	3,795	0	3,795
Investment Earnings	64,553	0	64,553
Extracurricular Activities	53,780	142,574	196,354
Class Materials and Fees	41,271	64,270	105,541
Intergovernmental - State	2,760,674	468,375	3,229,049
Intergovernmental - Federal	0	192,159	192,159
All Other Revenue	5,505	110,994	116,499
Total Revenue	10,282,514	1,740,719	12,023,233
Expenditures:			
Current:			
Instruction	6,493,500	305,758	6,799,258
Supporting Services:			
Pupils	424,527	7,903	432,430
Instructional Staff	384,270	127,999	512,269
Board of Education	30,882	0	30,882
Administration	698,665	124,101	822,766
Fiscal Services	348,937	9,871	358,808
Operation & Maintenance of Plant	1,018,948	249,140	1,268,088
Pupil Transportation	65,825	0	65,825
Central	49,541	6,000	55,541
Community Services	2,000	333,620	335,620
Extracurricular Activities	292,044	205,407	497,451
Capital Outlay	0	7,505	7,505
Debt Service:			
Principal Retirement	0	220,000	220,000
Interest & Fiscal Charges	0	240,588	240,588
Total Expenditures	9,809,139	1,837,892	11,647,031
Excess (Deficiency) of Revenues Over Expenditures	473,375	(97,173)	376,202
Other Financing Sources (Uses):			
Proceeds from the Sale of Fixed Assets	616	0	616
Transfers In	0	143,846	143,846
Transfers Out	(143,846)	0	(143,846)
Refund of P/Y Expenditures	3,449	990	4,439
Total Other Financing Sources (Uses)	(139,781)	144,836	5,055
Net Change in Fund Balance	333,594	47,663	381,257
Fund Balances at Beginning of Year	4,407,469	1,184,276	5,591,745
Fund Balances End of Year	\$ 4,741,063	\$ 1,231,939	\$ 5,973,002

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2004***

Net Change in Fund Balances - Total Governmental Funds **\$ 381,257**

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

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

Capital Outlay	244,836	
Depreciation Expense	<u>(231,057)</u>	13,779

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 42,835

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 220,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,464

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

Compensated Absences	(51,412)	
Pension Obligation (Intergovernmental Payable)	<u>(9,014)</u>	<u>(60,426)</u>

Change in Net Assets of Governmental Activities **\$ 600,909**

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Statement of Net Assets
Fiduciary Funds
June 30, 2004

	<u>Private Purpose Trust Funds</u>	<u>Student Managed Activity Fund</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 56,212	\$ 48,728	\$ 104,940
Receivables:			
Accounts	<u>0</u>	<u>335</u>	<u>335</u>
Total Assets	<u>56,212</u>	<u>49,063</u>	<u>105,275</u>
Liabilities:			
Due to Students	<u>0</u>	<u>49,063</u>	<u>49,063</u>
Total Liabilities	<u>0</u>	<u>49,063</u>	<u>49,063</u>
Net Assets:			
Unrestricted	<u>56,212</u>	<u>0</u>	<u>56,212</u>
Total Net Assets	<u>\$ 56,212</u>	<u>\$ 0</u>	<u>\$ 56,212</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Private Donations	\$ 1,282
Total Contributions	<u>1,282</u>
Investment Earnings:	
Interest	938
Total Investment Earnings	<u>938</u>
Total Additions	<u>2,220</u>
Deductions:	
Community Gifts, Awards and Scholarships	2,169
Total Deductions	<u>2,169</u>
Change in Net Assets	51
Net Assets at Beginning of Year	56,161
Net Assets End of Year	<u>\$ 56,212</u>

See accompanying notes to the basic financial statements

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 32 noncertified, 73 certified teaching personnel and 8 administrative employees providing education to 1,055 students.

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

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

B. Basis of Presentation - Fund Accounting

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

The following fund types are used by the District:

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

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

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

C. Basis of Presentation – Financial Statements

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

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

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

Current property taxes measurable at June 30, 2004, and which are not intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 30 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2004 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

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

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

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

E. Budgetary Process

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

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

1. Tax Budget

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Prior to January 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary schedule reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2004.

3. Appropriations

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Lapsing of Appropriations

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

5. Budgetary Basis of Accounting

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

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

	Net Change in Fund Balance
	General Fund
GAAP Basis (as reported)	\$333,594
Increase (Decrease):	
Accrued Revenues	
at June 30, 2004,	
received during FY 2005	(334,242)
Accrued Revenues	
at June 30, 2003,	
received during FY 2004	214,070
Accrued Expenditures	
at June 30, 2004,	
received during FY 2005	899,137
Accrued Expenditures	
at June 30, 2003,	
paid during FY 2004	(914,811)
FY 2003 Prepays for FY 2004	78,084
FY 2004 Prepays for FY 2005	(71,524)
Encumbrances Outstanding	(19,541)
Budget Basis	\$184,767

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of less than three months.

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

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreement and certificates of deposit) which are reported at cost, which approximates fair value. See Note 3, "Cash, Cash Equivalents and Investments." During fiscal year 2004, investments were limited to certificates of deposit and federal agency securities.

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2004. 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, 2004.

Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$64,553. Of that amount, \$13,060 was the amount allocated by other funds.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

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

2. Depreciation

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

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

J. Long-Term Obligations

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the vesting method. Employees earn 1.25 days of sick leave per month of service up to a maximum of 265 days for STRS employees and 250 days for SERS employees. Upon retirement, employees that pay into STRS will receive up to 36% of the accumulated sick leave up to a maximum of 95 days and employees that pay into SERS will receive up to 31.32% of the accumulated sick leave up to a maximum of 78 days. Administrators earn sick leave up to 290 days and will be paid up to 36% of accumulated sick leave up to a maximum of 104 days. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. Net Assets

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

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

M. Pensions

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Transactions

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

O. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the District for the acquisition of textbooks, instructional materials and capital assets, and to create a reserve for budget stabilization.

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for property taxes, prepaid items, endowments, and encumbered amounts, which have not been accrued at year end. In addition, fund balances are reserved by statute for the purchase of textbooks, instructional materials and capital acquisitions.

Q. Estimates

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Excess Appropriations over Estimated Revenues

Ohio Revised Code requires that appropriations do not exceed estimated revenues. Appropriations exceeded estimated revenues by \$62,498 in the Title VI-B Fund, \$912 in the Title VI Fund, \$1 in the Drug Free School Grant Fund, \$7,138 in the Activities Fund, \$20 in the School Net Fund (special revenue funds), and \$110,051 in the Permanent Improvement Fund (capital projects fund). Under the cash basis of accounting, expenditures did not exceed revenues.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2004, expenditures exceeded appropriations at the object level (i.e., the legal level of budgetary control) as follows:

<u>Fund</u>	<u>Excess</u>
Special Revenue Fund:	
Uniform School Supply Fund	
Instruction	\$8,171

The excess expenditures were funded from available fund balance.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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

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

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

A. Deposits

At year end the carrying amount of the District's deposits was \$2,297,399 and the bank balance was \$2,610,764. The Federal Deposit Insurance Corporation (FDIC) covered \$200,000 of the bank balance and all remaining deposits were classified as Category 3.

B. Investments

The District's investments at June 30, 2004 are summarized below:

	Category 1	Carrying Value/ Fair Value
Categorized Investments		
Federal Government Securities	\$3,465,565	\$3,465,565
Total Categorized Investments	3,465,565	3,465,565
Noncategorized Investments		
STAR Ohio	N/A	768,059
Total Investments	\$3,465,565	\$4,233,624

The District's investment in the State Treasurer's pool (STAR Ohio) is not categorized or assigned a risk category because it is not evidenced by securities that exist in physical or book entry form.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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

C. Reconciliation of Cash, Cash Equivalents and Investments

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$2,865,458	\$3,665,565
Certificates of Deposit (with maturities of more than 3 months)	200,000	(200,000)
STAR Ohio	<u>(768,059)</u>	<u>768,059</u>
Per GASB Statement No. 3	<u>\$2,297,399</u>	<u>\$4,233,624</u>

NOTE 4 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 – TAXES (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Ottawa Hills Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values for collection in 2004, upon which the 2003 levies were based, were as follows:

	2003 Second Half Collections	2004 First Half Collections
Agricultural/Residential and Other Real Estate	\$164,334,180	\$174,584,340
Public Utility Personal	1,974,540	1,923,510
Tangible Personal Property	781,282	359,416
Total Assessed Value	\$167,090,002	\$176,867,266
Taxrate per \$1,000 of assessed valuation	\$114.35	\$114.65

NOTE 5 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts, interest and intergovernmental receivables. All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

NOTE 6 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2004:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$339	\$0
Nonmajor Governmental Funds:		
Public School Support Fund	0	282
District Managed Student Activity Fund	0	57
Total Nonmajor Governmental Funds	0	339
Totals	\$339	\$339

NOTE 7 - TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2004:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$143,846
Nonmajor Governmental Fund:		
District Managed Student Activity Fund	33,000	0
Termination Benefits Fund	110,846	0
Total Nonmajor Governmental Funds	143,846	0
Total All Funds	\$143,846	\$143,846

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2004:

Historical Cost:

Class	June 30, 2003	Additions	Deletions	June 30, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$743,629	\$0	\$0	\$743,629
<i>Capital assets being depreciated:</i>				
Land Improvements	827,027	0	0	827,027
Buildings and Improvement	6,385,888	167,356	0	6,553,244
Machinery/Equipment and Furniture/Fixtures	788,701	57,134	(9,994)	835,841
Vehicles	154,532	20,346	(42,912)	131,966
Total Cost	\$8,899,777	\$244,836	(\$52,906)	\$9,091,707

Accumulated Depreciation:

Class	June 30, 2003	Additions	Deletions	June 30, 2004
Land Improvements	(\$382,073)	(\$34,238)	\$0	(\$416,311)
Buildings and Improvement	(3,027,765)	(150,585)	0	(3,178,350)
Machinery/Equipment and Furniture/Fixtures	(895,153)	(40,452)	9,994	(925,611)
Vehicles	(106,419)	(5,782)	42,912	(69,289)
Total Depreciation	(\$4,411,410)	(\$231,057) *	\$52,906	(\$4,589,561)
Net Value:	\$4,488,367			\$4,502,146

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$184,093
Support Services:	
Pupils	814
Instructional Staff	4,155
Administration	2,573
Fiscal Services	1,328
Operations & Maintenance of Plant	6,824
Pupil Transportation	5,782
Extracurricular Activities	25,488
Total Depreciation Expense	\$231,057

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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

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

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

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$155,436, \$147,720, and \$152,241, respectively. 73.56% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$41,102 represents the unpaid contributions for fiscal year 2004.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2004 employer contribution rate that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$72,022.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223.4 million and the target level was \$235.2 million. Net assets available for payment of benefits at June 30, 2004 were \$300.8 million.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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

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

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

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

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$693,852, \$679,843, and \$638,712, respectively. 84.65% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$106,463 represents the unpaid contribution for fiscal year 2004.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

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

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$49,561 for the District. The balance of the Health Care Reserve Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, the net health care costs paid by STRS were \$352,301,000. There were 108,294 eligible benefit recipients.

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2004 is as follows:

		<u>Balance</u>			<u>Balance</u>	<u>Amount Due</u>
		<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>	<u>Within</u>
						<u>One Year</u>
Governmental Activities:						
General Obligation Bonds:						
1998 School Improvement	4.75%	\$5,120,000	\$0	(\$220,000)	\$4,900,000	\$235,000
Compensated Absences		<u>1,099,303</u>	<u>313,747</u>	<u>(323,181)</u>	<u>1,089,869</u>	<u>57,431</u>
Total Long-Term Obligations		<u>\$6,219,303</u>	<u>\$313,747</u>	<u>(\$543,181)</u>	<u>\$5,989,869</u>	<u>\$292,431</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2004, follows:

Years	General Obligation Bonds	
	Principal	Interest
2005	\$235,000	\$230,019
2006	245,000	218,737
2007	265,000	206,863
2008	280,000	194,038
2009	295,000	180,619
2010 - 2014	1,775,000	670,344
2015 - 2018	1,805,000	199,262
Totals	\$4,900,000	\$1,899,882

NOTE 11 - STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2004, the reserve activity (cash-basis) was as follows:

	Textbook	Capital	Total
	Reserve	Acquisition Reserve	
Set-aside Cash Balance as of June 30, 2003	(\$276,450)	\$0	(\$276,450)
Current Year Set-Aside Requirement	145,223	145,223	290,446
Current Year Offset Credits	(223,284)	(350,285)	(573,569)
Qualifying Disbursements	0	0	0
Total	(\$354,511)	(\$205,062)	(\$559,573)
Cash Balance Carried Forward to FY 2005	(\$354,511)	\$0	(\$354,511)

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 12 - CONSTRUCTION COMMITMENTS

As of June 30, 2004, the District had the following commitment with respect to capital projects:

<u>Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Smoke Detectos - High School Buildings	\$17,392	August 2004
New Sidewalks - High School Buildings	\$10,480	August 2004
New Ceilings - High School Buildings	\$43,253	August 2004
Resurfacing Track	\$19,381	August 2004
New Kitchen in Home Economics Room	\$4,845	August 2004
Renovation of Girl Restrooms - Highs School Buildings	\$23,871	August 2004
Total	<u>\$119,222</u>	

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

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

Northern Buckeye Council - The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were \$63,725. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archibold, Ohio 43502.

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2004 the District contracted with several different insurance providers for various insurance coverages, as follows:

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

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

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

OTTAWA HILLS LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. State School Funding

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

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

NOTE 16 – OPERATING LEASE

The District entered into an operating lease in fiscal year 2002 with the Northwest Ohio Computer Association (NWOCA) for a high bandwidth dedicated connection to NWOCA for a period of fifteen (15) years. The District elected a payment plan over 15 years, with an annual payment of \$31,000. Lease payments totaled \$31,000 for the year. In addition, the District entered into an operating lease in fiscal 2004 with Perry Corporation for the use of nine copiers for a period of five years. There is no minimum monthly payment because the cost is calculated based on usage. Lease expense amounted to \$48,230 for the fiscal year 2004.

The following is a schedule of future minimum payments under the operating lease as of June 30, 2004:

Fiscal Year Ending June 30,	
2005	\$31,000
2006	31,000
2007	31,000
2008	31,000
2009	31,000
2010 - Thereafter	217,000
Total Minimum Lease Payments	<u>\$ 372,000</u>

OTTAWA HILLS LOCAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

OTTAWA HILLS LOCAL SCHOOL DISTRICT

**Schedule of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 7,280,363	\$ 7,197,799	\$ 7,197,801	\$ 2
Tuition	8,100	12,292	12,292	0
Transportation Fees	1,500	3,143	4,115	972
Investment Earnings	80,000	80,000	85,889	5,889
Extracurricular Activities	52,000	53,780	53,780	0
Class Material and Fees	25,737	39,037	40,696	1,659
Intergovernmental - State	2,800,951	2,760,491	2,760,674	183
All Other Revenues	4,950	3,988	6,183	2,195
Total Revenues	<u>10,253,601</u>	<u>10,150,530</u>	<u>10,161,430</u>	<u>10,900</u>
Expenditures:				
Current:				
Instruction	6,830,112	6,885,780	6,468,122	417,658
Support Services:				
Pupils	498,310	455,185	423,214	31,971
Instructional Staff	366,984	398,935	380,780	18,155
Board of Education	43,000	45,327	25,613	19,714
Administration	874,506	827,940	753,683	74,257
Fiscal Services	367,108	363,824	348,947	14,877
Operation and Maintenance of Plant	1,131,643	1,122,351	1,030,198	92,153
Pupil Transportation	90,970	93,195	64,735	28,460
Central	58,000	81,000	49,541	31,459
Community Services	2,000	2,000	2,000	0
Extracurricular Activities	330,045	334,940	290,961	43,979
Total Expenditures	<u>10,592,678</u>	<u>10,610,477</u>	<u>9,837,794</u>	<u>772,683</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(339,077)	(459,947)	323,636	783,583
Other Financing Sources (Uses):				
Proceeds from the Sale of Fixed Assets	0	616	616	0
Transfers Out	(158,500)	(144,500)	(143,846)	654
Advances In	0	912	912	0
Advances Out	(5,000)	(19,000)	0	19,000
Refund of Prior Year's Expenditures	500	3,449	3,449	0
Refund of Prior Year's Receipts	(500)	(500)	0	500
Total Other Financing Sources (Uses):	<u>(163,500)</u>	<u>(159,023)</u>	<u>(138,869)</u>	<u>20,154</u>
Net Change in Fund Balance	(502,577)	(618,970)	184,767	803,737
Fund Balance at Beginning of Year	5,012,136	5,012,136	5,012,136	0
Prior Year Encumbrances	17,990	17,990	17,990	0
Fund Balance at End of Year	<u>\$ 4,527,549</u>	<u>\$ 4,411,156</u>	<u>\$ 5,214,893</u>	<u>\$ 803,737</u>

See accompanying notes to the basic financial statements

LublinSussman Group LLP
Certified Public Accountants

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining funds information of Ottawa Hills Local School District, Lucas County, Ohio, (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-004.

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

www.lublinsussman.com

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

Branch Office
621 Croghan Street
Fremont, Ohio 43420
(419) 332-1513

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

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2004-004 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings as items 2004-001 thru 2004-004.

We also noted certain additional matters that we reported to management of the School District in a separate letter dated March 22, 2006.

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

Lublin Sussman Group LLP

March 22, 2006
Toledo, Ohio

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Findings
Fiscal Year Ended June 30, 2004**

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

FINDING NUMBER 2004-001

17 CFR Section 240.15c2-12 requires the School District to file an annual report by the date specified in the debt covenants with the Nationally Recognized Municipal Security Information Repositories (NRMSIRs). The debt covenant requires that the annual report be filed by December 31 of each year. When the audited report is available, it is to be filed also. The School District is on a biennial audit basis, and did not file any report with NRMSIRs for fiscal year 2004. Failure to file the annual report is in violation of the debt covenant. We recommend the School District file their unaudited GAAP financial statements with the required organization on or before December 31 of each year.

FINDING NUMBER 2004-002

Ohio revised Code Section 5705.41(B) prohibits a subdivision from making any expenditure of money unless it has been appropriated as provided in such chapter. At June 30, 2004, the following is an instance in which expenditures exceeded appropriations in the following funds at the legal level of control:

Fund	Appropriations	Expenditures	Variance
Uniform School Supply Fund	12,241	20,412	(8,171)

Management was advised that failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures exceeding available resources, further resulting in deficit spending practices.

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimate resources, if necessary.

FINDING NUMBER 2004-003

Ohio Revised Code Section 5705.41(D) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blank Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by the majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Ottawa Hills Local School District
Lucas County
Schedule of Findings

3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

For nine percent of the expenditures tested, prior certification was not obtained nor was a then and now certificate utilized. Certification is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of District funds being over expended or exceeding budgetary spending limitations as set by the Board.

We recommend that the Treasurer certify all purchase orders before an obligation is incurred. If this is not possible, the Treasurer should use the “then and now” certificate and the Board of Education should pass the necessary resolution for those disbursements over \$3,000. Failure to do this could result in incurred obligations exceeding available resources. Further, if obligations are incurred, but not paid by the end of the fiscal year, the payment for these obligations would be charged against the subsequent year’s appropriations.

FINDING NUMBER 2004-004

Material Weakness – Fixed Asset Controls

The School District has not adopted a proper fixed asset policy for the identification and capitalization of building improvements. In addition, the School District has not properly implemented procedures to assist in identifying building and building improvements purchased throughout the year. Failure to employ adequate controls over the recording of buildings and building improvements could result in the material misstatement of recorded assets.

To reduce the risk that the School District’s assets will be misstated, we recommend the adoption of a proper fixed asset policy and implementation of procedures for identifying and recording building and building improvements as fixed assets, rather than recording them as an expense in the year of purchase.

OTTAWA HILLS LOCAL SCHOOL DISTRICT, OHIO

**Schedule of Prior Audit Findings
Fiscal Year Ended June 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	17 CFR Section 240.15c2-12, filing of annual report with NRMSIRS & SID	No	Partially Corrected. School District filed annual report with SID. Citation on filing with NRMSIRS was reissued as finding number 2004-001.
2003-002	Revised Code § 5705.41(D), prior certification by Treasurer	No	Not Corrected. Citation reissued as finding number 2004-003.
2003-003	Revised Code § 5705.39, filing of annual appropriations and amendments with County Auditor	Yes	Annual appropriations were filed with the County Auditor.
2003-004	Revised Code § 5705.41(B), expenditures exceeding appropriations	No	Not Corrected. Citation reissued as finding number 2004-002.
2003-005	Material Weakness – Fixed Asset Controls	No	Partially Corrected. A fixed asset policy has been adopted and controls over additions and disposals for equipment and furniture and fixtures have been corrected. A proper fixed asset policy and control procedures for recording building and building improvements as fixed assets have not been implemented. Citation reissued as finding number 2004-004.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

OTTAWA HILLS LOCAL SCHOOL DISTRICT

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 27, 2006**