



**Auditor of State
Betty Montgomery**

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Ontario Local School District
Richland County
457 Shelby-Ontario Road
Mansfield, Ohio 44906

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in considering the results of our audit.

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

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



Betty Montgomery
Auditor of State

November 16, 2005

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of Ontario Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic 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 2005 are as follows:

- In total, net assets increased \$82,153. Net assets of governmental activities increased \$86,965, which represents a 1.04% increase from 2004. Net assets of business-type activities decreased \$4,812 or 18.84% from 2004.
- General revenues of governmental activities accounted for \$14,345,319 in revenue or 88.48% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,867,505 or 11.52% of total revenues of \$16,212,824.
- The District had \$16,125,859 in expenses related to governmental activities; only \$1,867,505 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,345,319 were used to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$12,730,279 in revenues and \$12,572,608 in expenditures. The fund balance of the general fund increased from \$1,728,538 to \$1,861,011.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$1,757,415 in revenues and \$1,556,923 in expenditures. The fund balance of the debt service fund increased from \$945,213 to \$1,145,705.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The District has two major governmental funds: the general fund and the debt service fund. The general fund is by far the most significant fund.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's preschool/latchkey programs are reported as business activities.

The District's Statement of Net Assets and Statement of Activities can be found on pages 15-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds

Most of 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. The basic governmental fund financial statements can be found on pages 18-22 of this report.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Proprietary Fund

The proprietary fund uses the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 26 and 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-57 of this report.

The District as a Whole

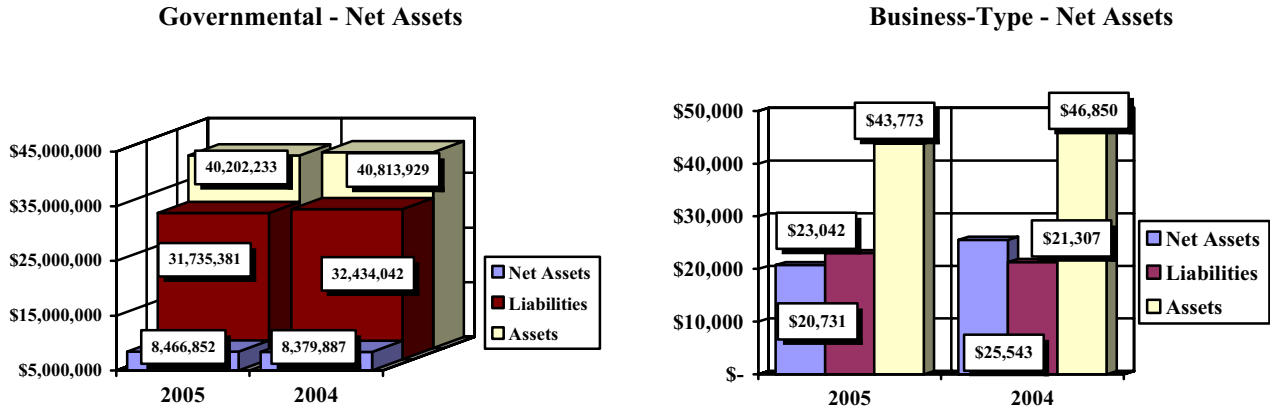
Recall that the Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2005 and 2004.

| | Net Assets | | | | | |
|--|----------------------------|---------------------|-----------------------------|------------------|---------------------|---------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| <u>Assets</u> | | | | | | |
| Current assets | \$ 15,391,737 | \$ 15,388,059 | \$ 43,773 | \$ 46,850 | \$ 15,435,510 | \$ 15,434,909 |
| Capital assets, net | 24,810,496 | 25,425,870 | - | - | 24,810,496 | 25,425,870 |
| Total assets | <u>40,202,233</u> | <u>40,813,929</u> | <u>43,773</u> | <u>46,850</u> | <u>40,246,006</u> | <u>40,860,779</u> |
| <u>Liabilities</u> | | | | | | |
| Current liabilities | 11,685,107 | 11,816,192 | 11,708 | 11,006 | 11,696,815 | 11,827,198 |
| Long-term liabilities | 20,050,274 | 20,617,850 | 11,334 | 10,301 | 20,061,608 | 20,628,151 |
| Total liabilities | <u>31,735,381</u> | <u>32,434,042</u> | <u>23,042</u> | <u>21,307</u> | <u>31,758,423</u> | <u>32,455,349</u> |
| <u>Net Assets</u> | | | | | | |
| Invested in capital assets, net of related debt | 7,175,711 | 7,125,885 | - | - | 7,175,711 | 7,125,885 |
| Restricted | 1,542,632 | 1,073,329 | - | - | 1,542,632 | 1,073,329 |
| Unrestricted | (251,491) | 180,673 | 20,731 | 25,543 | (230,760) | 206,216 |
| Total net assets | <u>\$ 8,466,852</u> | <u>\$ 8,379,887</u> | <u>\$ 20,731</u> | <u>\$ 25,543</u> | <u>\$ 8,487,583</u> | <u>\$ 8,405,430</u> |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Total net assets increased by \$82,153 due primarily to revenues increasing faster than expenses.



The table below shows the changes in net assets for fiscal years 2005 and 2004.

Change in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|-------------------------|----------------------|--------------------------|------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 1,165,889 | \$ 976,502 | \$ 55,871 | \$ 61,679 | \$ 1,221,760 | \$ 1,038,181 |
| Operating grants and contributions | 701,616 | 577,451 | - | - | 701,616 | 577,451 |
| General revenues: | | | | | | |
| Property taxes | 11,594,396 | 11,222,550 | - | - | 11,594,396 | 11,222,550 |
| Grants and entitlements | 2,634,246 | 2,638,284 | - | - | 2,634,246 | 2,638,284 |
| Investment earnings | 106,988 | 71,141 | - | - | 106,988 | 71,141 |
| Miscellaneous | 9,689 | 84,999 | - | 150 | 9,689 | 85,149 |
| Total revenues | \$ 16,212,824 | \$ 15,570,927 | \$ 55,871 | \$ 61,829 | \$ 16,268,695 | \$ 15,632,756 |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|------------------|---------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Expenses | | | | | | |
| Program expenses: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 6,211,551 | \$ 5,993,705 | \$ - | \$ - | \$ 6,211,551 | \$ 5,993,705 |
| Special | 1,078,040 | 877,233 | - | - | 1,078,040 | 877,233 |
| Vocational | 281,246 | 271,197 | - | - | 281,246 | 271,197 |
| Other | 169,486 | 143,895 | - | - | 169,486 | 143,895 |
| Support services: | | | | | | |
| Pupil | 707,322 | 688,991 | - | - | 707,322 | 688,991 |
| Instructional staff | 917,507 | 825,521 | - | - | 917,507 | 825,521 |
| Board of education | 36,975 | 38,508 | - | - | 36,975 | 38,508 |
| Administration | 1,138,126 | 1,144,443 | - | - | 1,138,126 | 1,144,443 |
| Fiscal | 475,777 | 457,351 | - | - | 475,777 | 457,351 |
| Operations and maintenance | 1,648,895 | 1,644,454 | - | - | 1,648,895 | 1,644,454 |
| Pupil transportation | 982,010 | 814,904 | - | - | 982,010 | 814,904 |
| Central | 18,309 | 24,720 | - | - | 18,309 | 24,720 |
| Operation of non-instructional services: | | | | | | |
| Food service operations | 680,325 | 627,613 | - | - | 680,325 | 627,613 |
| Other non-instructional services | 38,570 | 32,822 | - | - | 38,570 | 32,822 |
| Extracurricular activities | 657,018 | 680,897 | - | - | 657,018 | 680,897 |
| Interest and fiscal charges | 1,084,702 | 1,088,171 | - | - | 1,084,702 | 1,088,171 |
| Preschool/latchkey | - | - | 60,683 | 54,909 | 60,683 | 54,909 |
| Total expenses | <u>16,125,859</u> | <u>15,354,425</u> | <u>60,683</u> | <u>54,909</u> | <u>16,186,542</u> | <u>15,409,334</u> |
| Changes in net assets | 86,965 | 216,502 | (4,812) | 6,920 | 82,153 | 223,422 |
| Net assets at beginning of year | <u>8,379,887</u> | <u>8,163,385</u> | <u>25,543</u> | <u>18,623</u> | <u>8,405,430</u> | <u>8,182,008</u> |
| Net assets at end of year | <u>\$ 8,466,852</u> | <u>\$ 8,379,887</u> | <u>\$ 20,731</u> | <u>\$ 25,543</u> | <u>\$ 8,487,583</u> | <u>\$ 8,405,430</u> |

Governmental Activities

Net assets of the District's governmental activities increased by \$86,965. Total governmental expenses of \$16,125,859 were offset by program revenues of \$1,867,505, and general revenues of \$14,345,319. Program revenues supported 11.58% of the total governmental expenses.

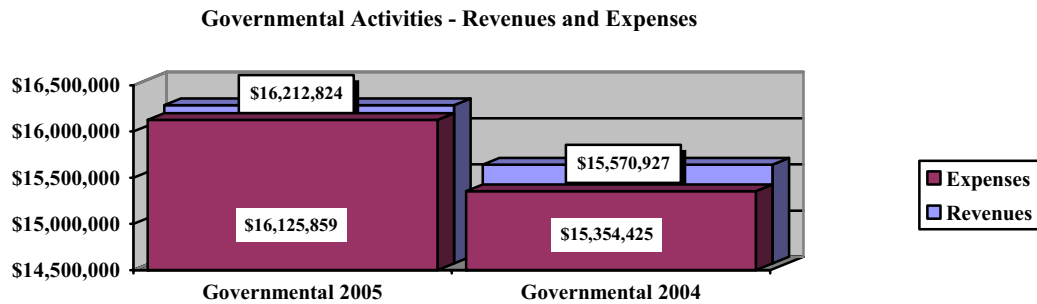
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 87.76% of total governmental revenue. Real estate property is reappraised every six years. As a result of the latest reappraisal by Richland County in tax year 2002, the District's tax valuation increased by 7% that year. Although recent growth has had a positive effect on the District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. H.B. 920 also provided a "floor" of 20 mills to which "effective millage", would not be reduced below. The District is at the 20 mill floor for Residential Real Estate Tax, but is not at the 20 mill floor for Commercial Real Estate Tax. Thus, although District tax valuation continues to grow, this built-in revenue limitation is one of the factors that require the District to request additional school operating revenue by placing a levy on the ballot periodically.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Voters approved the last additional operating levy in May 1992, which was a renewable 5 year dollar levy in the annual amount of \$1,320,000. This levy amount required 6.6 mills to be levied in 1992. In 2005 only 4.0 mills were required to be levied to generate \$1,320,000.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

| | Governmental Activities | | | |
|-------------------|--------------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | <u>2005</u> | <u>2005</u> | <u>2004</u> | <u>2004</u> |
| Program expenses: | | | | |
| Instruction: | | | | |
| Regular | \$ 6,211,551 | \$ 5,719,932 | \$ 5,993,705 | \$ 5,679,628 |
| Special | 1,078,040 | 766,311 | 877,233 | 617,560 |
| Vocational | 281,246 | 281,246 | 271,197 | 271,197 |
| Other | 169,486 | 169,486 | 143,895 | 143,895 |

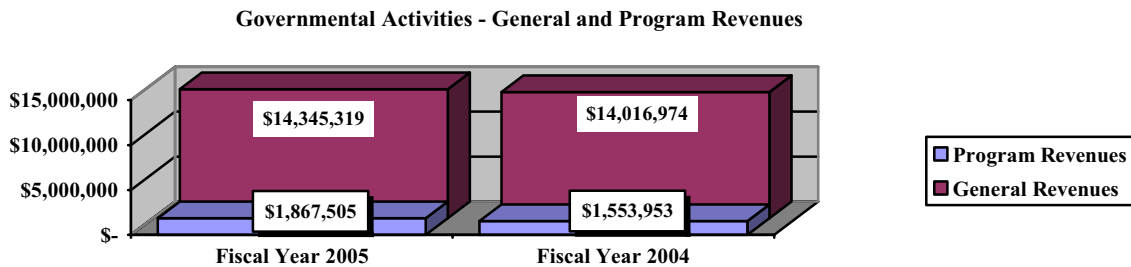
**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

| | Total Cost of Services <u>2005</u> | Net Cost of Services <u>2005</u> | Total Cost of Services <u>2004</u> | Net Cost of Services <u>2004</u> |
|---|--|--|--|--|
| Support services: | | | | |
| Pupil | \$ 707,322 | \$ 627,712 | \$ 688,991 | \$ 640,192 |
| Instructional staff | 917,507 | 814,697 | 825,521 | 736,541 |
| Board of education | 36,975 | 36,975 | 38,508 | 38,508 |
| Administration | 1,138,126 | 1,138,126 | 1,144,443 | 1,144,443 |
| Fiscal | 475,777 | 475,777 | 457,351 | 457,351 |
| Operations and maintenance | 1,648,895 | 1,618,946 | 1,644,454 | 1,604,237 |
| Pupil transportation | 982,010 | 982,010 | 814,904 | 812,994 |
| Central | 18,309 | 12,665 | 24,720 | 18,354 |
| Operation of non-instructional services: | | | | |
| Food service operations | 680,325 | 69,126 | 627,613 | 70,153 |
| Other operation of non-instructional services | 38,570 | 31,770 | 32,822 | 26,324 |
| Extracurricular activities | 657,018 | 428,873 | 680,897 | 450,924 |
| Interest and fiscal charges | <u>1,084,702</u> | <u>1,084,702</u> | <u>1,088,171</u> | <u>1,088,171</u> |
| Total | <u>\$ 16,125,859</u> | <u>\$ 14,258,354</u> | <u>\$ 15,354,425</u> | <u>\$ 13,800,472</u> |

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 89.62% of 2005 instruction activities are supported through taxes and other general revenues. The District's taxpayers, as a whole, are by far the primary support for the District's students, of which businesses pay 62% and residents pay 38% of the total taxes.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



Business-Type Activities

Business-type activities include preschool/latchkey operations. These programs had revenues of \$55,871 and expenses of \$60,683 for fiscal year 2005. The District's business-type activities do not receive support from tax revenues.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$3,301,175, which is above last year's total of \$2,833,385. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

| | Fund Balance June 30, 2005 | Restated Fund Balance June 30, 2004 | Increase/ (Decrease) |
|--------------------|-------------------------------|---|--------------------------|
| General | \$ 1,861,011 | \$ 1,728,538 | \$ 132,473 |
| Debt Service | 1,145,705 | 945,213 | 200,492 |
| Other Governmental | <u>294,459</u> | <u>159,634</u> | <u>134,825</u> |
| Total | <u>\$ 3,301,175</u> | <u>\$ 2,833,385</u> | <u>\$ 467,790</u> |

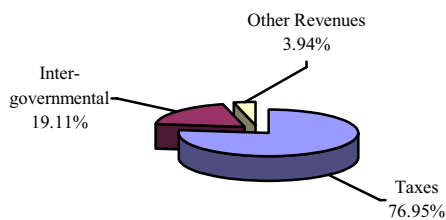
General Fund

The District's general fund balance increased \$132,473 during 2005. The district's expenditures would have exceeded revenues if reductions in expenditures, such as, professional development, field trips, maintenance and custodial supplies, and technology purchases were not made. The principal cause is stagnate growth in revenue coupled with major increases in health insurance costs, special education costs, and utility costs. Over the next several years, expenditures are anticipated to out pace revenues. Therefore, the Board is currently attempting to have an additional 3 year, \$1.62 million operating levy approved.

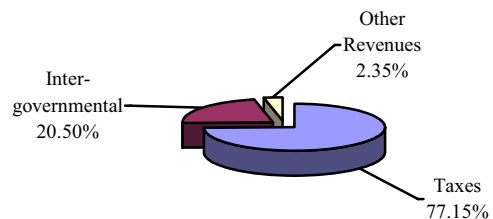
| | 2005 <u>Amount</u> | 2004 <u>Amount</u> | Percentage <u>Change</u> |
|-------------------|-----------------------------|-----------------------------|-----------------------------|
| Revenues | | | |
| Taxes | \$ 9,795,062 | \$ 9,255,234 | 5.83 % |
| Intergovernmental | 2,433,163 | 2,458,979 | (1.05) % |
| Other revenues | <u>502,054</u> | <u>282,152</u> | 77.94 % |
| Total | <u>\$ 12,730,279</u> | <u>\$ 11,996,365</u> | 6.12 % |

Tax revenue increased by \$539,828 or 5.83% from fiscal year 2004. Intergovernmental revenue decreased \$25,816 or 1.05% from the prior year. This decrease is attributed to a decrease in the number of grants the district received in 2005. Other revenues increased \$219,902 partially due to a \$188,642 or 248.89% increase in tuition revenues. This is attributable to the number of students enrolled from outside the school district.

Revenues - Fiscal Year 2005



Revenues - Fiscal Year 2004



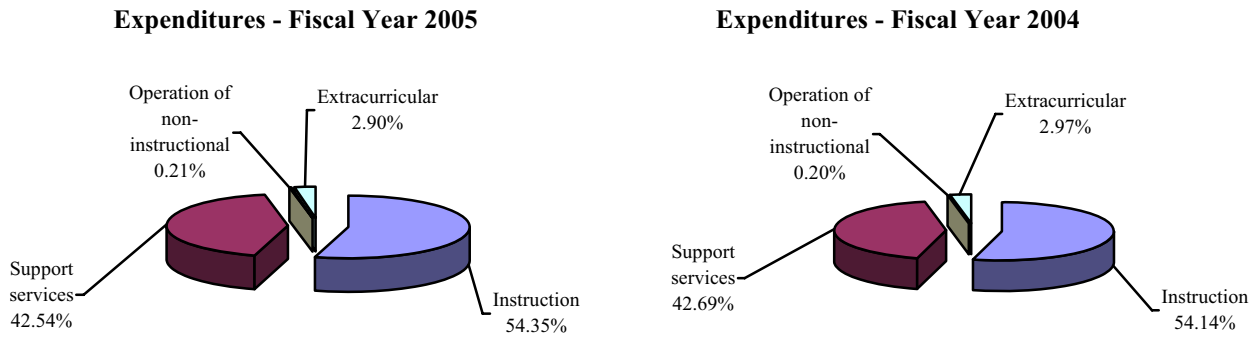
**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table that follows assists in illustrating the expenditures of the general fund.

| <u>Expenditures</u> | 2005 <u>Amount</u> | Restated 2004 <u>Amount</u> | Percentage <u>Change</u> |
|---|-----------------------|-----------------------------------|-----------------------------|
| Instruction | \$ 6,832,840 | \$ 6,579,075 | 3.86 % |
| Support services | 5,348,350 | 5,267,203 | 1.54 % |
| Operation of non-instructional services | 26,428 | 24,455 | 8.07 % |
| Extracurricular activities | 364,990 | 360,478 | 1.25 % |
| Total | <u>\$ 12,572,608</u> | <u>\$ 12,231,211</u> | 2.79 % |

The largest expenditure line item, instruction, increased by \$253,765 or 3.86%, which is primarily attributed to wage and benefit increases.



Debt Service Fund

The District's other major governmental fund is the debt service fund. The debt service fund had \$1,757,415 in revenues and \$1,556,923 in expenditures. The fund balance of the debt service fund increased \$200,492 from \$945,213 to \$1,145,705.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

General Fund Budgeting Highlights

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 2005, the District did not amend its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$395,720 below actual revenues and other financing sources of \$12,271,435. Of this \$395,720 difference, most was due to tax estimates in the original and final budget. This tax difference was mainly from the first half real estate taxes collected in calendar year 2005. Typically 53% of the total calendar year taxes are collected in the first half of the year. In 2005, 55% of the taxes were collected in the first half of the year. This was not truly an increase in tax collections but rather a shift between fiscal year collection amounts. The District amended its original budgeted revenues of the general fund twice during fiscal year 2005.

General fund original and final appropriations were \$13,087,182. The actual budget basis expenditures for fiscal year 2005 totaled \$12,692,561, which was \$394,621 less than the final budget appropriations. This occurred primarily because salary and benefit costs proved to be lower than anticipated in the original and final budget.

Capital Assets and Debt Administration

Capital Assets

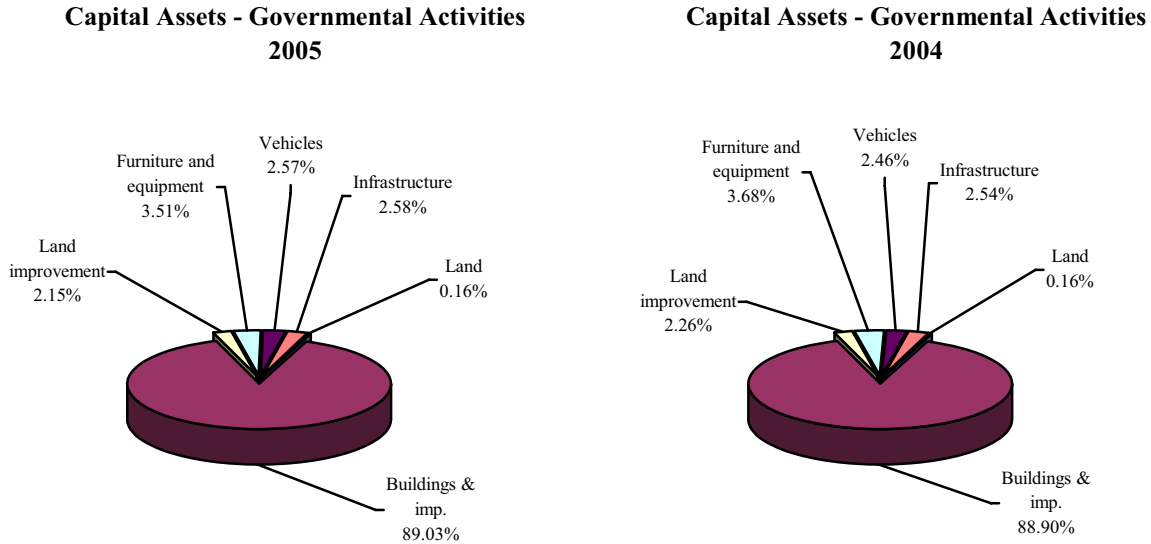
There are no capital assets reported in the business-type activities at June 30, 2005. At the end of fiscal year 2005, the District had \$24,810,496 invested in land, land/improvements, buildings/improvements, furniture/equipment, vehicles and infrastructure. The following table shows fiscal year 2005 balances compared to 2004:

| | Capital Assets at June 30 | |
|-----------------------|----------------------------------|-----------------------------|
| | (Net of Depreciation) | |
| | <u>Governmental Activities</u> | |
| | <u>2005</u> | <u>2004</u> |
| Land | \$ 40,839 | \$ 40,839 |
| Land/improvements | 534,467 | 575,210 |
| Building/improvements | 22,085,797 | 22,602,355 |
| Furniture/equipment | 870,894 | 936,799 |
| Vehicles | 637,847 | 625,520 |
| Infrastructure | <u>640,652</u> | <u>645,147</u> |
| Total | <u>\$ 24,810,496</u> | <u>\$ 25,425,870</u> |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The following graphs show the breakdown of governmental activities capital assets by category for 2005 and 2004.



See Note 7 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$18,700,383 in general obligation bonds outstanding. The issue is comprised of current issue bonds and capital appreciation bonds. Of this total, \$695,000 is due within one year and \$18,005,383 is due within more than one year. The following table summarizes the bonds outstanding:

Outstanding Debt at June 30

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2004</u> |
|----------------------------|---|---|
| Current interest bonds | \$ 17,005,000 | \$ 17,670,000 |
| Capital appreciation bonds | <u>1,695,383</u> | <u>1,467,291</u> |
| Total | <u>\$ 18,700,383</u> | <u>\$ 19,137,291</u> |

The District issued the general obligation bonds in 1999 to provide funds for various District building projects. The annual interest rate ranges from 4.05% to 5.375% and the bonds are scheduled to mature in fiscal year 2024.

See Note 8 to the basic financial statements for detail on the District's debt administration.

At June 30, 2005, the District's overall legal debt margin was \$14,496,689 (including available funds of \$1,145,705) and an unvoted debt margin of \$356,126.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Current Financial Related Activities

The District will be entering the beginning of a deficit spending cycle. Our revenues are projected to remain relatively flat over the next several years. Along with anticipated health care cost increases of 13%, increasing fuel costs, and major increases in natural gas costs, it is projected that our expenditures will exceed our revenues. In order to maintain the current curricular and co-curricular programs for our students, an additional operating levy will be required. A \$1,620,000, 3 year emergency levy was placed on the August 2, 2005 ballot. It failed by 45 votes. The Board of Education has placed the same issue on the November 8, 2005 ballot. It failed by 68 votes.

The Board has implemented the following reductions in expenditures for the 2005-2006 fiscal year in order to stabilize the fund balance: base wage freeze for all employees, reduction of eight employee positions, establish pay to participate for extracurricular activities, increased student fees, and reduced maintenance, custodial, technology, and instructional supply purchases. Additional reductions will be necessary for the 2006-2007 fiscal year if the new levy is not approved in fiscal year 2005-2006.

Contacting the District's Financial Management

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 Mr. Randall K. Harvey, Treasurer, Ontario Local School District, 457 Shelby-Ontario Road, Mansfield, Ohio 44906-1029.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

| | Governmental Activities | Business-Type Activities | Total |
|---|------------------------------------|-------------------------------------|-------------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents. . . | \$ 3,792,038 | \$ 43,773 | \$ 3,835,811 |
| Receivables: | | | |
| Taxes | 11,344,641 | - | 11,344,641 |
| Accounts | 2,999 | - | 2,999 |
| Intergovernmental | 158,894 | - | 158,894 |
| Prepayments | 8,889 | - | 8,889 |
| Materials and supplies inventory | 84,276 | - | 84,276 |
| Capital assets: | | | |
| Land | 40,839 | - | 40,839 |
| Depreciable capital assets, net | 24,769,657 | - | 24,769,657 |
| Capital assets, net. | <u>24,810,496</u> | <u>-</u> | <u>24,810,496</u> |
| Total assets. | <u>40,202,233</u> | <u>43,773</u> | <u>40,246,006</u> |
| Liabilities: | | | |
| Accounts payable. | 51,686 | - | 51,686 |
| Accrued wages and benefits | 1,361,249 | 6,292 | 1,367,541 |
| Pension obligation payable. | 392,848 | 1,045 | 393,893 |
| Intergovernmental payable | 113,953 | 512 | 114,465 |
| Deferred revenue | 9,701,655 | 3,859 | 9,705,514 |
| Accrued interest payable | 63,716 | - | 63,716 |
| Long-term liabilities: | | | |
| Due within one year. | 807,739 | - | 807,739 |
| Due within more than one year | 19,242,535 | 11,334 | 19,253,869 |
| Total liabilities. | <u>31,735,381</u> | <u>23,042</u> | <u>31,758,423</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt. | 7,175,711 | - | 7,175,711 |
| Restricted for: | | | |
| Capital projects | 206,460 | - | 206,460 |
| Debt service. | 1,201,553 | - | 1,201,553 |
| Locally funded programs | 1,366 | - | 1,366 |
| Federally funded programs. | 10,266 | - | 10,266 |
| Student activities | 57,343 | - | 57,343 |
| Public school support. | 54,153 | - | 54,153 |
| Other purposes | 11,491 | - | 11,491 |
| Unrestricted. | <u>(251,491)</u> | <u>20,731</u> | <u>(230,760)</u> |
| Total net assets | <u>\$ 8,466,852</u> | <u>\$ 20,731</u> | <u>\$ 8,487,583</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Expenses</u> | <u>Program Revenues</u> | |
|--|----------------------|---|---|
| | | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> |
| Governmental activities: | | | |
| Instruction: | | | |
| Regular | \$ 6,211,551 | \$ 403,903 | \$ 87,716 |
| Special | 1,078,040 | 7 | 311,722 |
| Vocational | 281,246 | - | - |
| Other | 169,486 | - | - |
| Support services: | | | |
| Pupil | 707,322 | 41,880 | 37,730 |
| Instructional staff | 917,507 | 18,800 | 84,010 |
| Board of education | 36,975 | - | - |
| Administration | 1,138,126 | - | - |
| Fiscal | 475,777 | - | - |
| Operations and maintenance | 1,648,895 | 29,949 | - |
| Pupil transportation | 982,010 | - | - |
| Central | 18,309 | - | 5,644 |
| Operation of non-instructional services: | | | |
| Food service operations | 680,325 | 443,137 | 168,062 |
| Other non-instructional services | 38,570 | 68 | 6,732 |
| Extracurricular activities | 657,018 | 228,145 | - |
| Interest and fiscal charges | 1,084,702 | - | - |
| Total governmental activities | <u>16,125,859</u> | <u>1,165,889</u> | <u>701,616</u> |
| Business-type activities: | | | |
| Preschool/latchkey | <u>60,683</u> | <u>55,871</u> | <u>-</u> |
| Total business-type activities | <u>60,683</u> | <u>55,871</u> | <u>-</u> |
| Totals | <u>\$ 16,186,542</u> | <u>\$ 1,221,760</u> | <u>\$ 701,616</u> |

General Revenues:

Property taxes levied for:

General purposes

Debt service

Capital projects

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|---------------------|
| \$ (5,719,932) | \$ - | \$ (5,719,932) |
| (766,311) | - | (766,311) |
| (281,246) | - | (281,246) |
| (169,486) | - | (169,486) |
| (627,712) | - | (627,712) |
| (814,697) | - | (814,697) |
| (36,975) | - | (36,975) |
| (1,138,126) | - | (1,138,126) |
| (475,777) | - | (475,777) |
| (1,618,946) | - | (1,618,946) |
| (982,010) | - | (982,010) |
| (12,665) | - | (12,665) |
| (69,126) | - | (69,126) |
| (31,770) | - | (31,770) |
| (428,873) | - | (428,873) |
| <u>(1,084,702)</u> | <u>-</u> | <u>(1,084,702)</u> |
| <u>(14,258,354)</u> | <u>-</u> | <u>(14,258,354)</u> |
| - | (4,812) | (4,812) |
| - | (4,812) | (4,812) |
| <u>(14,258,354)</u> | <u>(4,812)</u> | <u>(14,263,166)</u> |
| 9,674,265 | - | 9,674,265 |
| 1,585,420 | - | 1,585,420 |
| 334,711 | - | 334,711 |
| 2,634,246 | - | 2,634,246 |
| 106,988 | - | 106,988 |
| 9,689 | - | 9,689 |
| <u>14,345,319</u> | <u>-</u> | <u>14,345,319</u> |
| 86,965 | (4,812) | 82,153 |
| <u>8,379,887</u> | <u>25,543</u> | <u>8,405,430</u> |
| <u>\$ 8,466,852</u> | <u>\$ 20,731</u> | <u>\$ 8,487,583</u> |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | <u>General</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 2,449,874 | \$ 984,783 | \$ 345,890 | \$ 3,780,547 |
| Receivables: | | | | |
| Taxes. | 9,459,830 | 1,554,954 | 329,857 | 11,344,641 |
| Accounts | 790 | - | 2,209 | 2,999 |
| Intergovernmental | 97,960 | - | 60,934 | 158,894 |
| Prepayments. | 8,889 | - | - | 8,889 |
| Materials and supplies inventory | 74,240 | - | 10,036 | 84,276 |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 11,491 | - | - | 11,491 |
| Total assets | <u>\$ 12,103,074</u> | <u>\$ 2,539,737</u> | <u>\$ 748,926</u> | <u>\$ 15,391,737</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 24,002 | \$ - | \$ 27,684 | \$ 51,686 |
| Accrued wages and benefits | 1,275,681 | - | 85,568 | 1,361,249 |
| Compensated absences payable | 64,282 | - | - | 64,282 |
| Pension obligation payable. | 354,018 | - | 38,830 | 392,848 |
| Intergovernmental payable. | 107,301 | - | 6,652 | 113,953 |
| Deferred revenue. | 8,416,779 | 1,394,032 | 295,733 | 10,106,544 |
| Total liabilities | <u>10,242,063</u> | <u>1,394,032</u> | <u>454,467</u> | <u>12,090,562</u> |
| Fund Balances: | | | | |
| Reserved for encumbrances | 45,580 | - | 81 | 45,661 |
| Reserved for materials and supplies inventory. | 74,240 | - | 10,036 | 84,276 |
| Reserved for prepayments | 8,889 | - | - | 8,889 |
| Reserved for property tax unavailable for appropriation | 771,714 | 127,816 | 27,115 | 926,645 |
| Reserved for debt service | - | 1,017,889 | - | 1,017,889 |
| Reserved for school bus purchases | 11,491 | - | - | 11,491 |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 949,097 | - | - | 949,097 |
| Special revenue funds. | - | - | 89,730 | 89,730 |
| Capital projects funds. | - | - | 167,497 | 167,497 |
| Total fund balances | <u>1,861,011</u> | <u>1,145,705</u> | <u>294,459</u> | <u>3,301,175</u> |
| Total liabilities and fund balances | <u>\$ 12,103,074</u> | <u>\$ 2,539,737</u> | <u>\$ 748,926</u> | <u>\$ 15,391,737</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

| | | |
|--|--------------|---------------------|
| Total governmental fund balances | | \$ 3,301,175 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 24,810,496 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 404,889 | |
| Total | | 404,889 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | (1,285,609) | |
| General obligation bonds payable | (18,700,383) | |
| Accrued interest payable | (63,716) | |
| Total | | (20,049,708) |
| Net assets of governmental activities | | \$ 8,466,852 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>General</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------------|---|---|
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 9,795,062 | \$ 1,604,028 | \$ 338,731 | \$ 11,737,821 |
| Tuition. | 264,436 | - | - | 264,436 |
| Charges for services. | - | - | 443,137 | 443,137 |
| Earnings on investments. | 105,316 | - | 1,672 | 106,988 |
| Extracurricular. | - | - | 223,525 | 223,525 |
| Classroom materials and fees | 92,734 | - | 34,111 | 126,845 |
| Other local revenues. | 39,568 | - | 78,067 | 117,635 |
| Other revenue | - | - | 1,650 | 1,650 |
| Intergovernmental - State | 2,426,667 | 153,387 | 126,012 | 2,706,066 |
| Intergovernmental - Federal. | 6,496 | - | 635,328 | 641,824 |
| Total revenue | <u>12,730,279</u> | <u>1,757,415</u> | <u>1,882,233</u> | <u>16,369,927</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,666,523 | - | 200,682 | 5,867,205 |
| Special. | 729,151 | - | 317,115 | 1,046,266 |
| Vocational. | 267,680 | - | - | 267,680 |
| Other | 169,486 | - | - | 169,486 |
| Support Services: | | | | |
| Pupil. | 599,826 | - | 84,115 | 683,941 |
| Instructional staff | 711,168 | - | 104,914 | 816,082 |
| Board of education | 36,975 | - | - | 36,975 |
| Administration. | 1,136,385 | - | 4,000 | 1,140,385 |
| Fiscal | 434,501 | 29,582 | 6,145 | 470,228 |
| Operations and maintenance. | 1,573,410 | - | - | 1,573,410 |
| Pupil transportation | 843,568 | - | 62,231 | 905,799 |
| Central. | 12,517 | - | 5,792 | 18,309 |
| Operation of non-instructional services: | | | | |
| Food service operations | - | - | 605,618 | 605,618 |
| Other non-instructional services | 26,428 | - | 6,732 | 33,160 |
| Extracurricular activities. | 364,990 | - | 213,234 | 578,224 |
| Facilities acquisition and construction | - | - | 132,966 | 132,966 |
| Debt service: | | | | |
| Principal retirement | - | 665,000 | - | 665,000 |
| Interest and fiscal charges | - | 862,341 | - | 862,341 |
| Total expenditures | <u>12,572,608</u> | <u>1,556,923</u> | <u>1,743,544</u> | <u>15,873,075</u> |
| Net change in fund balances | 157,671 | 200,492 | 138,689 | 496,852 |
| Fund balances at | | | | |
| beginning of year (restated) | 1,728,538 | 945,213 | 159,634 | 2,833,385 |
| Decrease in reserve for inventory. | (25,198) | - | (3,864) | (29,062) |
| Fund balances at end of year | <u>\$ 1,861,011</u> | <u>\$ 1,145,705</u> | <u>\$ 294,459</u> | <u>\$ 3,301,175</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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, 2005

Net change in fund balances - total governmental funds \$ 496,852

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 expense exceeds capital outlays in the current period.

| | | |
|---------------------------|-----------|------------------|
| Capital asset additions | 216,020 | |
| Current year depreciation | (819,752) | |
| | | |
| Total | | (603,732) |

Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (11,642)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (29,062)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (157,103)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 665,000

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds. (222,361)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (50,987)

Change in net assets of governmental activities \$ 86,965

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 9,248,997 | \$ 9,137,759 | \$ 9,361,663 | \$ 223,904 |
| Tuition. | 160,936 | 159,000 | 179,802 | 20,802 |
| Earnings on investments. | 60,730 | 60,000 | 113,112 | 53,112 |
| Classroom materials and fees | 88,059 | 87,000 | 92,734 | 5,734 |
| Other local revenues. | 49,723 | 49,125 | 58,859 | 9,734 |
| Intergovernmental - State | 2,381,372 | 2,352,731 | 2,431,042 | 78,311 |
| Intergovernmental - Federal. | 2,328 | 2,300 | 5,668 | 3,368 |
| Total revenue | <u>11,992,145</u> | <u>11,847,915</u> | <u>12,242,880</u> | <u>394,965</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,878,627 | 5,878,627 | 5,727,351 | 151,276 |
| Special. | 786,507 | 786,507 | 780,730 | 5,777 |
| Vocational. | 264,561 | 264,561 | 262,184 | 2,377 |
| Other. | 186,435 | 186,435 | 169,486 | 16,949 |
| Support services: | | | | |
| Pupil. | 634,679 | 634,679 | 602,719 | 31,960 |
| Instructional staff | 768,115 | 768,115 | 737,279 | 30,836 |
| Board of education | 49,700 | 49,700 | 38,263 | 11,437 |
| Administration. | 1,190,868 | 1,190,868 | 1,161,789 | 29,079 |
| Fiscal | 442,908 | 442,908 | 425,084 | 17,824 |
| Operations and maintenance. | 1,686,672 | 1,686,672 | 1,571,359 | 115,313 |
| Pupil transportation | 778,905 | 778,905 | 814,359 | (35,454) |
| Central. | 15,335 | 15,335 | 12,517 | 2,818 |
| Operation of non-instructional services | 26,429 | 26,429 | 26,428 | 1 |
| Extracurricular activities. | 377,441 | 377,441 | 363,013 | 14,428 |
| Total expenditures | <u>13,087,182</u> | <u>13,087,182</u> | <u>12,692,561</u> | <u>394,621</u> |
| Excess of revenues (under) expenditures. | <u>(1,095,037)</u> | <u>(1,239,267)</u> | <u>(449,681)</u> | <u>789,586</u> |
| Other financing sources: | | | | |
| Refund of prior year expenditure | 5,567 | 5,500 | 7,055 | 1,555 |
| Advances in. | 21,762 | 21,500 | 21,500 | - |
| Sale of capital assets. | 810 | 800 | - | (800) |
| Total other financing sources. | <u>28,139</u> | <u>27,800</u> | <u>28,555</u> | <u>755</u> |
| Net change in fund balance | (1,066,898) | (1,211,467) | (421,126) | 790,341 |
| Fund balance at beginning of year. | 2,725,632 | 2,725,632 | 2,725,632 | - |
| Prior year encumbrances appropriated | <u>104,511</u> | <u>104,511</u> | <u>104,511</u> | <u>-</u> |
| Fund balance at end of year | <u>\$ 1,763,245</u> | <u>\$ 1,618,676</u> | <u>\$ 2,409,017</u> | <u>\$ 790,341</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

| | <u>Nonmajor Enterprise Fund</u> |
|--|--|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents. | \$ 43,773 |
| Total current assets | <u>43,773</u> |
| Liabilities: | |
| Current liabilities: | |
| Accrued wages and benefits | 6,292 |
| Pension obligation payable. | 1,045 |
| Intergovernmental payable | 512 |
| Deferred revenue | 3,859 |
| Total current liabilities | <u>11,708</u> |
| Long-term liabilities: | |
| Compensated absences. | <u>11,334</u> |
| Total liabilities | <u>23,042</u> |
| Net assets: | |
| Unrestricted. | 20,731 |
| Total net assets | <u><u>\$ 20,731</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Nonmajor Enterprise Fund |
|--|---|
| Operating revenues: | |
| Tuition and fees | \$ 55,871 |
| Total operating revenues | 55,871 |
| Operating expenses: | |
| Personal services. | 53,975 |
| Purchased services. | 760 |
| Materials and supplies | 5,948 |
| Total operating expenses | 60,683 |
| Change in net assets. | (4,812) |
| Net assets at beginning of year | 25,543 |
| Net assets at end of year | \$ 20,731 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Nonmajor Enterprise Fund |
|---|---|
| Cash flows from operating activities: | |
| Cash received from tuition and fees. | \$ 55,505 |
| Cash payments for personal services | (51,874) |
| Cash payments for purchased services | (760) |
| Cash payments for materials and supplies. | (5,948) |
| | (5,948) |
| Net cash used in operating activities | (3,077) |
| | (3,077) |
| Net decrease in cash and cash equivalents | (3,077) |
| Cash and cash equivalents at beginning of year . . . | 46,850 |
| Cash and cash equivalents at end of year. | \$ 43,773 |
| | 43,773 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss. | \$ (4,812) |
| Changes in assets and liabilities: | |
| Increase in accrued wages and benefits | 679 |
| Increase in pension obligation payable | 30 |
| Increase in intergovernmental payable. | 359 |
| Increase in compensated absences payable | 1,033 |
| Decrease in deferred revenue | (366) |
| | (366) |
| Net cash used in operating activities. | \$ (3,077) |
| | (3,077) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

| | <u>Private-Purpose Trust</u> | |
|---|----------------------------------|------------------|
| | <u>Scholarship</u> | <u>Agency</u> |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 16,988 | \$ 66,473 |
| Receivables: | | |
| Accounts | - | 366 |
| Total assets. | <u>16,988</u> | <u>\$ 66,839</u> |
| Liabilities: | | |
| Intergovernmental payable | - | 6,009 |
| Due to students | - | 60,830 |
| Total liabilities | <u>-</u> | <u>\$ 66,839</u> |
| Net Assets: | | |
| Held in trust for scholarships | <u>16,988</u> | |
| Total net assets | <u>\$ 16,988</u> | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Private-Purpose Trust |
|---|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 590 |
| Gifts and contributions. | 500 |
| | 1,090 |
| Total additions. | 1,090 |
| Deductions: | |
| Scholarships awarded | 499 |
| | 591 |
| Change in net assets | 591 |
| Net assets at beginning of year. | 16,397 |
| Net assets at end of year | \$ 16,988 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Ontario Local School District (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 operates under a locally-elected five-member Board of Education (Board) and provides educational services as authorized by state and/or federal agencies. The Board controls the District's four instructional/support facilities which are staffed by 72 classified, 107 certificated full-time teaching personnel, and 10 administrators who provide services to 1,806 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its business-type activities and to its proprietary fund. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments (the "COG")

The COG is a joint venture among 16 local school districts, 1 educational service center, 1 career and technology center, and a consortium of community schools. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge dependent upon the software package utilized. In the event of dissolution of the COG, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contribution. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG, as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

GROUP PURCHASING POOL

Metropolitan Educational Council (MEC)

The District is a member of the Metropolitan Educational Council (MEC) purchasing group. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases. The District paid MEC a total of \$1,286 in administrative fees during fiscal year 2005.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. Each category is separated into separate fund types.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

The proprietary fund is used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration.

Enterprise Fund - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's only nonmajor enterprise fund is the Preschool-Latchkey fund which accounts for parent paid tuition to provide preschool services for 3 and 4 year olds and to provide child care services for 2 hours before and after school.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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. 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. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations 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 segment of the business-type activities of the District and 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 are 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. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise 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.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Preschool/Latchkey enterprise fund are tuition and fees. Operating expenses for the enterprise fund include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report results of operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange 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 (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses/expenditures are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the 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 total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets (Continued)

4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.

Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriation total.

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level, which is the legal level of control.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to federal agency notes, repurchase agreements, certificates of deposit, State Treasury Asset Reserve (STAR Ohio), U.S. government money market fund, and an open-ended mutual fund. Investments are reported at fair value, which is based on quoted market prices, with the following exceptions: nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost and investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

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, 2005.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments (Continued)

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. During fiscal year 2005, interest revenue credited to the General Fund amounted to \$105,316, which included \$34,336 assigned from other District funds.

The open-ended mutual fund is invested primarily in U.S. governmental obligations which are an allowable investment according to Ohio Statute. The District has been endowed with a gift of the Lincoln National variable annuity to its private-purpose trust fund. No public funds were used to acquire the annuity.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. The District does not report capital assets in its proprietary fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Capital Assets (Continued)

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

| <u>Description</u> | Governmental Activities <u>Estimated Lives</u> |
|------------------------|--|
| Land/improvements | 10 - 45 years |
| Buildings/improvements | 10 - 50 years |
| Furniture/equipment | 5 - 20 years |
| Vehicles | 12 - 13 years |
| Infrastructure | 50 years |

I. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, debt service and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the preschool/latchkey programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District reports restricted assets for school bus purchases. See Note 15 for details.

Q. Interfund Activity

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 and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

A. Change in Accounting Principles and Restatement of Fund Balance (Continued)

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major Governmental funds of the District as they were previously reported as of June 30, 2004:

| | General | Debt Service | Nonmajor | Total |
|--------------------------------------|--------------|--------------|------------|--------------|
| Fund Balances, June 30, 2004 | \$ 1,807,601 | \$ 945,213 | \$ 183,244 | \$ 2,936,058 |
| GASB Technical Bulletin No. 2004-2 | (79,063) | - | (23,610) | (102,673) |
| Restated Fund Balance, June 30, 2004 | \$ 1,728,538 | \$ 945,213 | \$ 159,634 | \$ 2,833,385 |

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

| | Deficit |
|-------------------------------------|-----------|
| <u>Nonmajor Funds</u> | |
| Food Service | \$ 19,907 |
| Management Information System | 447 |
| School Net Professional Development | 5 |
| Ohio Reads | 28 |
| Title I | 4,833 |
| Title VI | 9 |
| Reducing Class Size | 130 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. 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 and interest by the United States;
2. 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;
3. 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year-end, the District had \$100 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,899,894. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$216,804 of the District's bank balance of \$2,004,332 was exposed to custodial risk as discussed below, while \$1,787,528 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Balance at Fair Value</u> | <u>Investment Maturities</u> | | |
|--|----------------------------------|------------------------------|---------------------------|-----------------------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>Greater than 24 months</u> |
| FHLB | \$ 797,822 | \$ 100,633 | \$ 497,564 | \$ 199,625 |
| U.S. Government Money Market | 963,961 | 963,961 | - | - |
| (Lincoln National Annuity) Mutual Fund | 16,488 | 16,488 | - | - |
| STAR Ohio | 241,007 | 241,007 | - | - |
| | <u>\$ 2,019,278</u> | <u>\$ 1,322,089</u> | <u>\$ 497,564</u> | <u>\$ 199,625</u> |

The weighted average maturity of investments is .59 years.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% to Total</u> |
|---------------------------------------|---------------------|-------------------|
| FHLB | \$ 797,822 | 39.51 |
| U.S. Government Money Market | 963,961 | 47.74 |
| (Lincoln National Annuity) Mutal Fund | 16,488 | 0.81 |
| STAR Ohio | 241,007 | 11.94 |
| | <u>\$ 2,019,278</u> | <u>100.00</u> |

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

| <u>Cash and Investments per footnote</u> | |
|--|---------------------|
| Carrying amount of deposits | \$ 1,899,894 |
| Investments | 2,019,278 |
| Cash on hand | 100 |
| Total | <u>\$ 3,919,272</u> |

| <u>Cash and Investments per Statement of Net Assets</u> | |
|---|---------------------|
| Governmental activities | \$ 3,792,038 |
| Business-type activities | 43,773 |
| Private-purpose trust fund | 16,988 |
| Agency funds | 66,473 |
| Total | <u>\$ 3,919,272</u> |

NOTE 5 - PROPERTY TAXES

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

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 5 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005 was \$771,714 in the general fund, \$127,816 in the debt service fund, and \$27,115 in the capital projects fund. The amount available for advance at June 30, 2004 was \$459,184 in the general fund, \$74,650 in the debt service fund, and \$15,910 in the capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | 2004 Second Half Collections | | 2005 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 262,614,620 | 75.17 | \$ 270,673,150 | 76.00 |
| Public Utility Personal | 9,144,440 | 2.62 | 8,865,310 | 2.49 |
| Tangible Personal Property | <u>77,604,530</u> | <u>22.21</u> | <u>76,587,843</u> | <u>21.51</u> |
| Total | <u>\$ 349,363,590</u> | <u>100.00</u> | <u>\$ 356,126,303</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation: | | | | |
| Operations | \$ 38.70 | | \$ 38.40 | |
| Debt service | 4.70 | | 4.70 | |
| Permanent improvement | 1.00 | | 1.00 | |

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

| Governmental Activities | |
|--------------------------------|----------------------|
| Taxes | \$ 11,344,641 |
| Accounts | 2,999 |
| Intergovernmental | <u>158,894</u> |
| Total | <u>\$ 11,506,534</u> |

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

| | <u>Balance June 30, 2004</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2005</u> |
|---|----------------------------------|---------------------|--------------------|----------------------------------|
| Governmental Activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 40,839 | \$ - | \$ - | \$ 40,839 |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land/improvements | 929,819 | - | - | 929,819 |
| Building/improvements | 27,598,457 | 50,311 | (11,900) | 27,636,868 |
| Furniture/equipment | 1,804,295 | 37,540 | - | 1,841,835 |
| Vehicles | 1,280,994 | 118,106 | - | 1,399,100 |
| Infrastructure | 671,962 | 10,063 | - | 682,025 |
| Total capital assets, being depreciated | <u>32,285,527</u> | <u>216,020</u> | <u>(11,900)</u> | <u>32,489,647</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Land/improvements | (354,609) | (40,743) | - | (395,352) |
| Building/improvements | (4,996,102) | (555,227) | 258 | (5,551,071) |
| Furniture/equipment | (867,496) | (103,445) | - | (970,941) |
| Vehicles | (655,474) | (105,779) | - | (761,253) |
| Infrastructure | (26,815) | (14,558) | - | (41,373) |
| Total accumulated depreciation | <u>(6,900,496)</u> | <u>(819,752)</u> | <u>258</u> | <u>(7,719,990)</u> |
| Governmental activities capital assets, net | <u>\$ 25,425,870</u> | <u>\$ (603,732)</u> | <u>\$ (11,642)</u> | <u>\$ 24,810,496</u> |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 362,440 |
| Special | 22,637 |
| Vocational | 10,274 |
| <u>Support Services:</u> | |
| Pupil | 27,437 |
| Instructional staff | 67,042 |
| Administration | 14,607 |
| Fiscal | 2,569 |
| Operations and maintenance | 58,982 |
| Pupil transportation | 103,214 |
| <u>Operation of non-instructional services:</u> | |
| Other non-instructional services | 5,410 |
| Food service operations | 67,554 |
| Extracurricular activities | <u>77,586</u> |
| Total depreciation expense | <u>\$ 819,752</u> |

NOTE 8 - LONG-TERM OBLIGATIONS

A. The District's long-term obligations during the year consist of the following:

| | Balance Outstanding <u>June 30, 2004</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>June 30, 2005</u> | Amounts Due in <u>One Year</u> |
|-------------------------------|--|-------------------|---------------------|--|--------------------------------------|
| General obligation bonds | \$ 19,137,291 | \$ 228,092 | \$ (665,000) | \$ 18,700,383 | \$ 695,000 |
| Compensated absences | <u>1,480,559</u> | <u>160,854</u> | <u>(291,522)</u> | <u>1,349,891</u> | <u>112,739</u> |
| Total governmental activities | <u>\$ 20,617,850</u> | <u>\$ 388,946</u> | <u>\$ (956,522)</u> | <u>\$ 20,050,274</u> | <u>\$ 807,739</u> |

B. During fiscal year 1999, the District issued \$21,249,985 in general obligation bonds to provide funds for various District building projects. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the Debt Service Fund.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$20,620,000, and capital appreciation bonds, par value \$629,985. The interest rates on the current interest bonds range from 4.05% to 5.375%. The capital appreciation bonds mature on December 1, 2005 (effective interest 16.30%), December 1, 2006 (effective interest 14.75%) and December 1, 2007 (effective interest 13.85%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value reported in the Statement of Net Assets at June 30, 2005, was \$1,695,383. A total of \$1,065,398 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2005.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2023.

The following is a schedule of activity for fiscal year 2005 on the general obligation bonds:

| | Balance June 30, 2004 | Appreciation | Reductions | Balance June 30, 2005 |
|----------------------------|--------------------------|-------------------|---------------------|--------------------------|
| Current interest bonds | \$ 17,670,000 | \$ - | \$ (665,000) | \$ 17,005,000 |
| Capital appreciation bonds | <u>1,467,291</u> | <u>228,092</u> | <u>-</u> | <u>1,695,383</u> |
| Total G.O. bonds | <u>\$ 19,137,291</u> | <u>\$ 228,092</u> | <u>\$ (665,000)</u> | <u>\$ 18,700,383</u> |

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

| Year Ended | Current Interest Bonds | | | Capital Appreciation Bonds | | |
|--------------|------------------------|----------------------|----------------------|----------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2006 | \$ - | \$ 848,209 | 848,209 | \$ 220,732 | \$ 474,268 | \$ 695,000 |
| 2007 | 30,000 | 847,402 | 877,402 | 211,175 | 478,825 | 690,000 |
| 2008 | 30,000 | 845,790 | 875,790 | 198,078 | 491,922 | 690,000 |
| 2009 | 720,000 | 828,654 | 1,548,654 | - | - | - |
| 2010 | 755,000 | 794,822 | 1,549,822 | - | - | - |
| 2011 - 2015 | 4,355,000 | 3,379,625 | 7,734,625 | - | - | - |
| 2016 - 2020 | 5,560,000 | 2,129,106 | 7,689,106 | - | - | - |
| 2021 - 2024 | <u>5,555,000</u> | <u>574,603</u> | <u>6,129,603</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 17,005,000</u> | <u>\$ 10,248,211</u> | <u>\$ 27,253,211</u> | <u>\$ 629,985</u> | <u>\$ 1,445,015</u> | <u>\$ 2,075,000</u> |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$14,496,689 (including available funds of \$1,145,705) and an unvoted debt margin of \$356,126.

NOTE 9 - COMPENSATED ABSENCES

The criteria for determining the vested vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn 5 to 25 days of vacation per year, depending upon the length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited. The only exception is the Central Office Administrators who are paid for up to 10 days of unused vacation at the end of their contract. The Superintendent is also allowed to carry over up to ten unused days of vacation from year to year. The teachers do not earn vacation.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 450 days. Upon retirement, payment is made based upon the following schedule for any unused sick days:

| <u>School Year</u> | <u>Severance Pay Percentage</u> | <u>Maximum Accrued Sick Leave Days</u> | <u>Maximum Severance Pay Days</u> |
|------------------------|---|--|---|
| 2004 - 05 | 24.62% | 390 | 96 |
| 2005 - 06 | 23.95% | 405 | 97 |
| 2006 - 07 | 23.33% | 420 | 98 |
| 2007 - 08 | 22.76% | 435 | 99 |
| 2008 - 09 | 22.22% | 450 | 100 |

Classified employees who work on calamity days earn a compensation day. These days are encouraged to be taken during the year in which they are earned. Compensation days not taken during the year will be paid at the employee's daily rate at the end of the fiscal year. The principal employees receiving compensation days are maintenance and custodial.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 10 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance Company for property insurance coverage in the blanket amount of \$48,308,394 with agreed amount, 100% coinsurance, replacement cost endorsement and a \$1,000 deductible. Boiler and machinery coverage is also provided with blanket coverage in the amount of \$48,308,394 with a \$1,000 deductible. The District inland marine coverage amount is \$1,182,908 for electronic data processing and \$526,850 for tractors, band uniforms, athletic equipment, musical instruments, audio/visual equipment and signs. The inland marine coverage has a \$500 deductible.

Vehicles are covered by Indiana Insurance Company and hold a \$500 deductible for comprehensive and for collision. Automobile Liability has a \$1,000,000 combined single limit of liability. An umbrella liability coverage is provided above stated base liability coverage for general and fleet liability in the amount of \$10,000,000 with a \$10,000 self-insured retention.

Indiana Insurance Company also provides general liability coverage with a \$2,000,000 single occurrence limit and no deductible. The umbrella liability coverage does not apply to this coverage.

Indiana Insurance Company provides School Leaders Errors and Omissions Liability coverage with a \$1,000,000 aggregate and a \$2,500 deductible. The umbrella liability coverage does not apply to this coverage.

Indiana Insurance Company provides Employee Benefits Liability coverage on a claims made policy with a \$1,000,000 claim limit and \$3,000,000 aggregate limit with a \$1,000 deductible. The umbrella liability coverage does apply to this coverage.

Indiana Insurance Company also provides Sexual Misconduct & Molestation Liability coverage with a \$1,000,000 occurrence limit and no deductible, and provides Employers' Liability coverage in the amount of \$1,000,000, with a \$2,000,000 aggregate limit and no deductible. The umbrella liability coverage does apply to both of the above coverages.

The District does not have any underground storage tanks; therefore, underground storage tanks leak insurance is not required.

B. Employee Dishonesty Bonds

The District carries employee dishonesty bonds for the Treasurer, Superintendent, and Board President in the amounts of \$40,000, \$40,000, and \$20,000, respectively. Also an employee blanket dishonesty bond in the total amount of \$100,000 is provided to cover all other employees of the District.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control and actuarial services to the GRP.

The District paid \$1,856 in administrative fees to the GRP for fiscal year 2005.

D. Employee Group Life, Medical, Dental, and Vision Insurance

The District provides life insurance and accidental death and dismemberment insurance to all regular contracted employees through Anthem Life Insurance Company of Indiana in the amount of \$50,000.

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical plan with a \$200 single and \$400 family deductible. Included in the plan is a prescription drug card with a \$10 per prescription copay for generic drugs, a \$20 per prescription copay for formulary drugs, and a \$30 per prescription copay for brand drugs. The medical and prescription drug card plans are administered by Medical Mutual of Ohio located in Cleveland, Ohio. The total monthly premium paid for the medical and prescription drug plan is \$367.96 for single coverage and \$993.58 for family coverage. The District portion of the monthly premium is \$332.08 for single coverage and \$891.73 for family coverage which is paid out of the same fund that pays the salary for the employee. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$35.88 for single coverage and \$101.85 for family coverage, which is withheld from their biweekly payroll.

The District provides dental coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$29.82 for single and \$80.53 for family coverage. The District's portion of the monthly premium is \$17.86 for single and \$53.28 for family coverage. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee monthly portion of the premium is \$11.96 for single and \$27.25 for family coverage, which is withheld from their biweekly payroll.

The District also provides vision coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$10.54 for single coverage and \$28.44 for family coverage. The District's portion of the monthly premium is \$6.16 for single coverage and \$18.04 for family coverage. This amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee monthly portion of the premium is \$4.38 for single coverage and \$10.40 for family coverage, which is withheld from their biweekly payroll.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 10 - RISK MANAGEMENT - (Continued)

The above employee portions of premiums for medical, dental and vision insurance are for full-time employees. The employee portion for part-time employees is about double for employees who work more than 20 hours but less than 30 hours. For part-time employees who work less than 20 hours a week the employee portion is more than triple.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$288,888, \$242,592 and \$249,984, respectively; 50% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$144,444 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to member and death and survivor benefits to beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$913,080, \$861,912, and \$777,888, respectively; 83.33% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$152,180 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,652 made by the District and \$9,047 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio and SERS based on authority granted by state statute. Both STRS Ohio and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$65,220 during fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS Ohio were \$268.739 million and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits including surcharge equaled \$104,052 during the 2005 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (a) Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ (421,126) |
| Net adjustment for revenue accruals | 487,399 |
| Net adjustment for expenditure accruals | 70,073 |
| Net adjustment for other sources | (28,555) |
| Adjustment for encumbrances | <u>49,880</u> |
| GAAP basis | <u>\$ 157,671</u> |

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 14 - CONTINGENCIES - (Continued)

C. State School Funding Decision

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 school 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 15 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

| | <u>Textbooks/ Instructional Materials</u> | <u>Capital Acquisition</u> |
|--|---|--------------------------------|
| Set-aside cash balance as of June 30, 2004 | \$ (478,096) | \$ - |
| Current year set-aside requirement | 250,963 | 250,963 |
| Qualifying disbursements | <u>(303,534)</u> | <u>(810,405)</u> |
| Total | <u>\$ (530,667)</u> | <u>\$ (559,442)</u> |
| Balance carried forward to FY 2006 | <u>\$ (530,667)</u> | <u>\$ -</u> |

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

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

| | |
|--|------------------|
| Amount restricted for school bus purchases | <u>\$ 11,491</u> |
| Total restricted assets | <u>\$ 11,491</u> |

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 16 - SIGNIFICANT SUBSEQUENT EVENTS

The Board of Education placed a \$1,620,000 3 year emergency levy on the August 2, 2005 ballot. That levy failed by a vote of 1,945 against and 1,900 for the levy. This was the fourth time for a new money levy over the past year.

The Board of Education approved the same levy to be placed again on the November 8, 2005 ballot. It failed by a vote of 2,415 against and 2,347 for the levy. The Board of Education is considering placing the levy on the ballot in the future.

In July 2005, the Board of Education approved a resolution to provide for the issuance of \$15,495,000 School Improvement Refunding Bonds. The Refunding Bonds will replace the \$21,249,984.80 School Improvement bonds dated August 6, 1998.

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**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/ Passed Through Grantor/ Program Title | Federal CFDA Number | Pass Through Grantor Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|--|---------------------------|-----------------------------------|--------------------|----------------------|---------------------|--------------------------|
| <u>U.S. Department of Education</u> | | | | | | |
| <i>(Passed through the Ohio Department of Education)</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1-S1-2004 C1-S1-2005 | \$6,163 145,048 | | \$17,268 143,760 | |
| Total Title I Grants to Local Educational Agencies | | | <u>151,211</u> | | <u>161,028</u> | |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States | 84.027 | 6B-SF-2004 6B-SF-2005 | 33,271 213,736 | | 44,669 191,717 | |
| Total Special Education Cluster | | | <u>247,007</u> | | <u>236,386</u> | |
| Safe and Drug-Free Schools and Communities State Grants | 84.186 | DR-S1-2005 | 6,732 | | 6,732 | |
| Innovative Education Program Strategies | 84.298 | C2-S1-2005 | 7,187 | | 7,187 | |
| Technology Literacy Challenge Fund Grants | 84.318 | TJ-S1-2005 | 3,950 | | 3,950 | |
| Improving Teacher Quality State Grants | 84.367 | TR-S1-2005 | 40,152 | | 40,152 | |
| Total U.S. Department of Education | | | <u>456,239</u> | | <u>455,435</u> | |
| <u>U.S. Department of Health and Human Services</u> | | | | | | |
| <i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i> | | | | | | |
| Medical Assistance Program | 93.778 | N/A | 5,668 | | 5,668 | |
| Total U.S. Department of Health and Human Services | | | <u>5,668</u> | | <u>5,668</u> | |
| <u>U.S. Department of Agriculture</u> | | | | | | |
| <i>(Passed through the Ohio Department of Education)</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| Food Donation Program | 10.550 | N/A | | \$76,490 | | \$76,490 |
| National School Lunch Program | 10.555 | N/A | 94,728 | | 94,728 | |
| Total U.S. Department of Agriculture (Child Nutrition Cluster) | | | <u>94,728</u> | <u>76,490</u> | <u>94,728</u> | <u>76,490</u> |
| Totals | | | <u>\$556,635</u> | <u>\$76,490</u> | <u>\$555,831</u> | <u>\$76,490</u> |

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this statement.

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Ontario Local School District
Richland County
457 Shelby-Ontario Road
Mansfield, Ohio 44906

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 16, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated November 16, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Ontario Local School District
Richland County
Independent Accountants' Report on Internal Controls Over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

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

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

Betty Montgomery
Auditor of State

November 16, 2005



Auditor of State Betty Montgomery

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

Ontario Local School District
Richland County
457 Shelby-Ontario Road
Mansfield, Ohio 44906

To the Board of Education:

Compliance

We have audited the compliance of Ontario Local School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

November 16, 2005

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | CFDA # 10.550 and 10.555, Child Nutrition Cluster; CFDA # 84.027, Special Education_Grants to States |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND 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
DECEMBER 27, 2005**