

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Osnaburg Local School District
Stark County
310 East Browning Street
East Canton, Ohio 44730

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the discretely presented component unit and remaining fund information of Osnaburg Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the discretely presented component unit and remaining fund information of Osnaburg Local School District, Stark County, Ohio, as of June 30, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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.

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

Mary Taylor, CPA
Auditor of State

February 9, 2007

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

The discussion and analysis of the Osnaburg 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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities decreased \$40,647 which represents a 0.71% decrease from 2005.
- General revenues accounted for \$6,813,801 in revenue or 84.74% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,226,503 or 15.26% of total revenues of \$8,040,304.
- The District had \$8,080,951 in expenses related to governmental activities; \$1,226,503 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,813,801 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$7,109,777 in revenues and other financing sources and \$7,015,447 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$94,330 from \$3,987,708 to \$4,082,038

Using these Basic Financial Statements

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. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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 2006?" 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.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund 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. The District's only major governmental fund is the general fund.

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* than can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 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 or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. 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 23-46 of this report.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Governmental Activities 2005
	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 7,619,968	\$ 7,273,827
Capital assets, net	<u>1,703,471</u>	<u>1,794,938</u>
Total assets	<u>9,323,439</u>	<u>9,068,765</u>
<u>Liabilities</u>		
Current liabilities	3,213,215	2,952,995
Long-term liabilities	<u>394,769</u>	<u>359,668</u>
Total liabilities	<u>3,607,984</u>	<u>3,312,663</u>
<u>Net Assets</u>		
Invested in capital assets	1,703,471	1,794,938
Restricted	115,592	112,454
Unrestricted	<u>3,896,392</u>	<u>3,848,710</u>
Total net assets	<u>\$ 5,715,455</u>	<u>\$ 5,756,102</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$5,715,455. Of this total, \$3,896,392 is unrestricted in use.

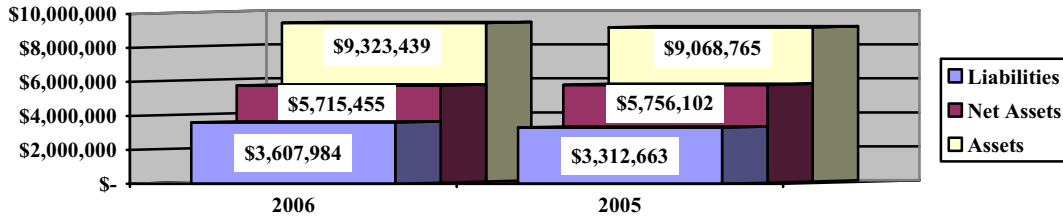
At year-end, capital assets represented 18.27% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$115,592, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,896,392 may be used to meet the District's ongoing obligations to the students and creditors.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005.

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 713,858	\$ 606,237
Operating grants and contributions	499,973	486,854
Capital grants and contributions	12,672	-
General revenues:		
Property taxes	2,609,036	2,532,678
Grants and entitlements	3,994,828	4,033,458
Investment earnings	173,506	110,920
Other	<u>36,431</u>	<u>6,308</u>
Total revenues	<u>8,040,304</u>	<u>7,776,455</u>

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,374,447	\$ 3,166,471
Special	599,058	625,349
Vocational	210,720	190,928
Adult continuing education	-	2,200
Other	381,117	416,755
Support services:		
Pupil	374,210	269,359
Instructional staff	157,536	195,829
Board of education	21,315	29,397
Administration	637,645	626,140
Fiscal	228,824	220,072
Business	2,353	2,353
Operations and maintenance	641,348	580,847
Pupil transportation	556,876	549,808
Central	23,094	22,952
Operations of non-instructional services	21,792	17,706
Food service operations	362,450	372,801
Extracurricular activities	<u>488,166</u>	<u>539,750</u>
Total expenses	<u>8,080,951</u>	<u>7,828,717</u>
Change in net assets	(40,647)	(52,262)
Net assets at beginning of year	<u>5,756,102</u>	<u>5,808,364</u>
Net assets at end of year	<u>\$ 5,715,455</u>	<u>\$ 5,756,102</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$40,647. Total governmental expenses of \$8,080,951 were offset by program revenues of \$1,226,503 and general revenues of \$6,813,801. Program revenues supported 15.18% of the total governmental expenses.

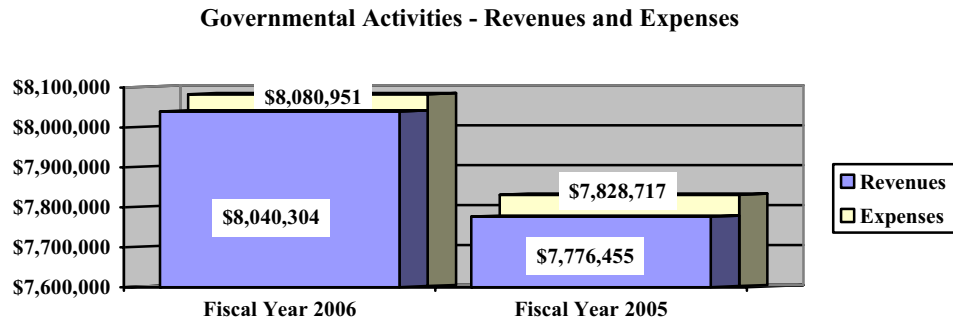
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 82.14% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,565,342 or 56.50% of total governmental expenses for fiscal 2006.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

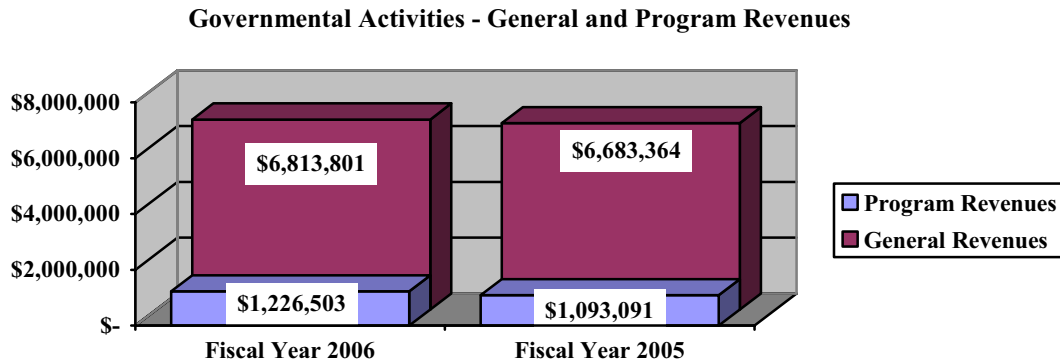
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 3,374,447	\$ 2,960,308	\$ 3,166,471	\$ 2,861,862
Special	599,058	499,638	625,349	381,728
Vocational	210,720	210,720	190,928	190,928
Adult continuing education	-	-	2,200	2,200
Other	381,117	381,117	416,755	414,555
Support services:				
Pupil	374,210	236,628	269,359	261,064
Instructional staff	157,536	136,598	195,829	177,458
Board of education	21,315	21,315	29,397	14,370
Administration	637,645	621,915	626,140	626,140
Fiscal	228,824	228,824	220,072	220,072
Business	2,353	2,353	2,353	2,353
Operations and maintenance	641,348	641,348	580,847	580,847
Pupil transportation	556,876	556,876	549,808	549,808
Central	23,094	18,094	22,952	17,952
Operations of non-instructional services	21,792	21,792	17,706	17,706
Food service operations	362,450	11,272	372,801	41,467
Extracurricular activities	488,166	305,650	539,750	375,116
Total expenses	<u>\$ 8,080,951</u>	<u>\$ 6,854,448</u>	<u>\$ 7,828,717</u>	<u>\$ 6,735,626</u>

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 88.75% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.83%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



The District's Funds

The District's governmental funds reported a combined fund balance of \$4,160,520, which is higher than last year's total of \$4,086,515. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Decrease	Percentage Change
General	\$ 4,082,038	\$ 3,987,708	\$ 94,330	2.37 %
Other Governmental	78,482	98,807	(20,325)	(20.57) %
Total	<u>\$ 4,160,520</u>	<u>\$ 4,086,515</u>	<u>\$ 74,005</u>	1.81 %

General Fund

The District's general fund's fund balance increased \$94,330. This increase was primarily due to increasing revenues outpacing increasing expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,589,126	\$ 2,434,638	\$ 154,488	6.35 %
Earnings on investments	173,399	109,634	63,765	58.16 %
Intergovernmental	3,994,828	4,033,457	(38,629)	(0.96) %
Other revenues	<u>349,955</u>	<u>240,683</u>	<u>109,272</u>	45.40 %
 Total	 <u>\$ 7,107,308</u>	 <u>\$ 6,818,412</u>	 <u>\$ 288,896</u>	 4.24 %
<u>Expenditures</u>				
Instruction	\$ 4,279,362	\$ 4,112,024	\$ 167,338	4.07 %
Support services	2,443,325	2,287,870	155,455	6.79 %
Non-instructional services	21,084	16,706	4,378	26.21 %
Extracurricular activities	270,621	343,047	(72,426)	(21.11) %
Facilities acquisition and construction	<u>1,055</u>	<u>40,964</u>	<u>(39,909)</u>	(97.42) %
 Total	 <u>\$ 7,015,447</u>	 <u>\$ 6,800,611</u>	 <u>\$ 214,836</u>	 3.16 %

The most significant increase in revenues occurred in earnings on investments which was due to increases in interest rates. Overall, total revenues remained consistent with the previous year. The most significant increase in general fund expenditures occurred in instruction, which was primarily due to increasing teacher salaries. In total, the overall increase in expenditures was not significant in the general fund.

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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,795,200 and final budgeted revenues and other financing sources were \$7,012,953. Actual revenues and other financing sources for fiscal 2006 was \$7,091,832. This represents a \$296,632 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$7,468,241. General fund final appropriations totaled \$7,396,171. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$7,183,316, which is lower than final budgeted appropriations by \$212,855.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$1,703,471 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 469,714	\$ 469,714
Land improvements	409,799	448,808
Building and improvements	333,844	352,535
Furniture and equipment	121,870	148,810
Vehicles	368,244	375,071
 Total	 <u>\$ 1,703,471</u>	 <u>\$ 1,794,938</u>

The overall decrease in capital assets of \$91,467 is due to depreciation expense of \$191,037 exceeding capital outlays of \$100,571, and disposals of \$26,856 exceeding the accumulated depreciation on the disposals of \$25,855 during the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2006, the District had no debt outstanding. The only long-term obligation for the District is for compensated absences of \$394,769. Of this total, \$13,760 is due within one year and \$381,009 is due within greater than one year. The following table summarizes the compensated absences outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2006	2005
Compensated absences	\$ 394,769	\$ 359,668
 Total	 <u>\$ 394,769</u>	 <u>\$ 359,668</u>

At June 30, 2006, the District's overall legal debt margin was \$7,930,617, and an unvoted debt margin of \$88,118.

See Note 9 to the basic financial statements for additional information.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

Current Financial Related Activities

The District has been rated Effective on the last five state report cards. This past year the Primary Building was rated Excellent for the third year in a row. The District continues to allocate funds to allow our students to receive the opportunities that they need in order to be successful.

Last year the District expended more monies than it received. This year, according to our five year forecast, the District will also expend more money than it receives. This deficit spending pattern shall continue to eat away at our carryover until we predict the District will be in the red during the 2010-2011 school year.

The last operating levy was passed in 2000 and at that time District administrators assured the community that we would not ask for any new money until at least 2005. We have achieved that promise, but a new operating levy is on the horizon.

On February 6, 2007, District voters passed a 6.2 mill bond issue and related .5 mill maintenance levy for the construction of a new K-12 building funded in part through the Ohio Schools Facilities Commission program.

We expect construction to begin in the next 12 months.

Traditionally, our community has been supportive of the District. Levies always pass, but often not on the first attempt. Rising health costs, an aging certificated staff, rising fuel and supplies costs all indicate that unless there is additional support from the state, an additional levy will be required.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and 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 Ms. Christine Robenstine, Treasurer, Osnaburg Local School District, 310 Browning Street, East Canton, Ohio 44730.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government	Component Unit
	Governmental Activities	East Canton Digital Academy
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 4,966,660	\$ 4,246
Receivables:		
Taxes	2,536,754	-
Accounts	2,841	-
Intergovernmental	100,673	-
Accrued interest	107	-
Prepayments	7,877	-
Materials and supplies inventory	5,056	-
Capital assets:		
Land	469,714	-
Depreciable capital assets, net	1,233,757	104,287
Capital assets, net.	<u>1,703,471</u>	<u>104,287</u>
 Total assets.	 <u>9,323,439</u>	 <u>108,533</u>
 Liabilities:		
Accounts payable.	3,043	10,191
Accrued wages and benefits	786,295	-
Pension obligation payable.	248,745	-
Intergovernmental payable	28,008	-
Deferred revenue	2,147,124	-
Long-term liabilities:		
Due within one year.	13,760	-
Due within more than one year	381,009	-
Total liabilities	<u>3,607,984</u>	<u>10,191</u>
 Net Assets:		
Invested in capital assets	1,703,471	104,287
Restricted for:		
Capital projects	12,672	-
State funded programs.	176	-
Federally funded programs.	7,361	-
Student activities.	64,080	-
Other purposes.	31,303	-
Unrestricted.	<u>3,896,392</u>	<u>(5,945)</u>
Total net assets	<u>\$ 5,715,455</u>	<u>\$ 98,342</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,799,827	\$ 135,530	\$ 4,935,357
Receivables:			
Taxes	2,536,754	-	2,536,754
Accounts	2,841	-	2,841
Intergovernmental	16,222	84,451	100,673
Accrued interest	107	-	107
Interfund receivable	25,000	-	25,000
Prepayments	7,877	-	7,877
Materials and supplies inventory	-	5,056	5,056
Restricted assets:			
Equity in pooled cash and cash equivalents	31,303	-	31,303
Total assets	\$ 7,419,931	\$ 225,037	\$ 7,644,968
Liabilities:			
Accounts payable	\$ 2,053	\$ 990	\$ 3,043
Accrued wages and benefits	718,564	67,731	786,295
Pension obligation payable	228,560	20,185	248,745
Intergovernmental payable	25,555	2,453	28,008
Interfund payable	-	25,000	25,000
Deferred revenue	2,363,161	30,196	2,393,357
Total liabilities	3,337,893	146,555	3,484,448
Fund Balances:			
Reserved for encumbrances	143,074	4,218	147,292
Reserved for materials and supplies inventory	-	5,056	5,056
Reserved for prepayments	7,877	-	7,877
Reserved for property tax unavailable for appropriation	173,700	-	173,700
Reserved for school bus purchase	4,347	-	4,347
Reserved for BWC refunds	26,956	-	26,956
Unreserved, undesignated, reported in:			
General fund	3,726,084	-	3,726,084
Special revenue funds	-	56,536	56,536
Capital projects funds	-	12,672	12,672
Total fund balances	4,082,038	78,482	4,160,520
Total liabilities and fund balances	\$ 7,419,931	\$ 225,037	\$ 7,644,968

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances		\$ 4,160,520
<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.		1,703,471
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 215,930	
Intergovernmental revenue	30,196	
Accrued interest	107	
Total		246,233
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences		(394,769)
Net assets of governmental activities		\$ 5,715,455

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,589,126	\$ -	\$ 2,589,126
Tuition.	268,602	-	268,602
Charges for services.	-	214,768	214,768
Earnings on investments.	173,399	1,582	174,981
Extracurricular.	-	182,516	182,516
Classroom materials and fees	29,721	-	29,721
Other local revenues.	51,632	-	51,632
Intergovernmental - intermediate.	1,100	-	1,100
Intergovernmental - state	3,993,728	69,576	4,063,304
Intergovernmental - federal	-	418,298	418,298
Total revenue	<u>7,107,308</u>	<u>886,740</u>	<u>7,994,048</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,219,646	75,879	3,295,525
Special.	476,839	117,378	594,217
Vocational.	201,760	-	201,760
Other	381,117	-	381,117
Support services:			
Pupil.	215,643	135,080	350,723
Instructional staff	131,184	21,327	152,511
Board of education	21,315	-	21,315
Administration.	637,099	15,430	652,529
Fiscal	226,885	-	226,885
Business	2,353	-	2,353
Operations and maintenance.	638,982	-	638,982
Pupil transportation	552,142	-	552,142
Central.	17,722	4,923	22,645
Operation of non-instructional services:			
Food service operations	-	361,439	361,439
Other non-instructional services.	21,084	-	21,084
Extracurricular activities.	270,621	175,609	446,230
Facilities acquisition and construction	1,055	-	1,055
Total expenditures	<u>7,015,447</u>	<u>907,065</u>	<u>7,922,512</u>
Excess of revenues over (under) expenditures.	<u>91,861</u>	<u>(20,325)</u>	<u>71,536</u>
Other financing sources:			
Sale of capital assets.	2,469	-	2,469
Total other financing sources.	<u>2,469</u>	<u>-</u>	<u>2,469</u>
Net change in fund balances	94,330	(20,325)	74,005
Fund balances at beginning of year.	<u>3,987,708</u>	<u>98,807</u>	<u>4,086,515</u>
Fund balances at end of year.	<u>\$ 4,082,038</u>	<u>\$ 78,482</u>	<u>\$ 4,160,520</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK 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, 2006

Net change in fund balances - total governmental funds	\$	74,005
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Capital asset additions	\$ 100,571	
Current year depreciation	(191,037)	
Total		(90,466)
Governmental funds only report 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.		
Capital asset disposals	(26,856)	
Accumulated depreciation on disposals	25,855	
Total		(1,001)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	19,910	
Intergovernmental revenue	24,771	
Accrued interest	107	
Total		44,788
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.		
		(67,973)
Change in net assets of governmental activities	\$	(40,647)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK 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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 2,456,288	\$ 2,535,000	\$ 2,579,816	\$ 44,816
Tuition.	211,107	217,872	268,980	51,108
Earnings on investments.	101,740	105,000	168,121	63,121
Classroom materials and fees	29,068	30,000	29,721	(279)
Other local revenues	21,414	22,100	27,359	5,259
Intergovernmental - intermediate.	-	-	1,100	1,100
Intergovernmental - state	3,954,169	4,080,881	3,989,804	(91,077)
Intergovernmental - federal	9,689	10,000	112	(9,888)
Total revenue	<u>6,783,475</u>	<u>7,000,853</u>	<u>7,065,013</u>	<u>64,160</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,313,922	3,281,942	3,256,564	25,378
Special.	509,587	504,670	463,433	41,237
Vocational.	216,422	214,333	209,430	4,903
Other.	465,580	461,087	457,660	3,427
Support services:				
Pupil.	226,224	224,041	218,853	5,188
Instructional staff	162,240	160,674	153,864	6,810
Board of education	29,717	29,430	21,516	7,914
Administration.	670,246	663,778	631,708	32,070
Fiscal	245,724	243,353	226,261	17,092
Business	3,231	3,200	2,353	847
Operations and maintenance.	676,529	670,000	647,854	22,146
Pupil transportation	576,677	571,112	551,523	19,589
Central.	18,175	18,000	17,722	278
Operation of non-instructional services	21,255	21,050	20,107	943
Extracurricular activities.	287,171	284,400	273,413	10,987
Facilities acquisition and construction.	20,297	20,101	6,055	14,046
Total expenditures	<u>7,442,997</u>	<u>7,371,171</u>	<u>7,158,316</u>	<u>212,855</u>
Excess of revenues over (under) expenditures.	<u>(659,522)</u>	<u>(370,318)</u>	<u>(93,303)</u>	<u>277,015</u>
Other financing sources (uses):				
Refund of prior year expenditure.	6,783	7,000	20,350	13,350
Advances in.	3,876	4,000	4,000	-
Advances (out)	(25,244)	(25,000)	(25,000)	-
Sale of capital assets.	1,066	1,100	2,469	1,369
Total other financing sources (uses)	<u>(13,519)</u>	<u>(12,900)</u>	<u>1,819</u>	<u>14,719</u>
Net change in fund balance	(673,041)	(383,218)	(91,484)	291,734
Fund balance at beginning of year.	4,697,255	4,697,255	4,697,255	-
Prior year encumbrances appropriated	80,808	80,808	80,808	-
Fund balance at end of year	<u>\$ 4,105,022</u>	<u>\$ 4,394,845</u>	<u>\$ 4,686,579</u>	<u>\$ 291,734</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 70,155	\$ 33,213
Receivables:		
Accounts	3,000	-
Total assets.	73,155	\$ 33,213
Liabilities:		
Accounts payable.	-	\$ 74
Due to students	-	33,139
Total liabilities	-	\$ 33,213
Net Assets:		
Held in trust for scholarships	73,155	
Total net assets	\$ 73,155	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,714
Gifts and contributions.	3,500
Total additions.	5,214
Deductions:	
Scholarships awarded	8,900
Change in net assets	(3,686)
Net assets at beginning of year.	76,841
Net assets at end of year	\$ 73,155

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District is located in East Canton, Stark County, Ohio. The District is the 513th largest in the State of Ohio (among the 615 public school districts) in terms of enrollment. It is staffed by 39 non-certificated employees and 70 certificated employees who provide services to 920 students and other community members. The District operates one elementary school (K-3), one middle school (4-8) and a high school (9-12).

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 activities provided they do not conflict with or contradict GASB pronouncements. 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". 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, foods 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 organization's 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 access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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 one component unit. 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:

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

DISCRETELY PRESENTED COMPONENT UNIT

The East Canton Digital Academy Community School (the "Academy")

The Academy is a legally separate, conversion community school, served by a Board of Directors. The Academy provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors consists of the District's Superintendent, Technology Coordinator, Curriculum Director, and two additional Board members appointed by the District. The Osnaburg Local School District is the sponsoring District of the Academy under Ohio Revised Code Section 3314. The Superintendent of the District serves as the Chief Administrative Officer and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy's purpose of servicing the students with the District, and the relationship between the Board of Education of the District and The Board of Directors of the Academy, the Academy is a component unit of the District and the financial activity of the Academy is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Digital Academy at 310 Browning Street, East Canton, Ohio 44730.

JOINTLY GOVERNED ORGANIZATIONS

Stark-Portage Area Computer Consortium (SPARCC)

The District is a member of the SPARCC, a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five member executive board which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

Insurance Purchasing Pool

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The group is comprised of the treasurers of the members who have been appointed by the respective governing body of each member.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

The intent of the pool is to achieve a reduced rate for the District by grouping with other members of the pool. The injury claim histories of all participating members are used to calculate a common rate for the pool. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member annually based on its payroll percent of the group.

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. The District does not have proprietary funds.

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 is the District's major governmental fund:

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

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 (b) for grants and other resources whose use is restricted to a particular purpose and (c) for food service operations.

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 fund accounts for student 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.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report 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. Fiduciary funds also use the accrual basis of accounting.

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

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

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 6).

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.

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, 2006, but which were levied to finance fiscal year 2007 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 are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental 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. Allocation 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 cash basis budget for all funds. The specific timetable for fiscal year 2006 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. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed 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 Stark County Budget Commission for tax rate determination.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

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 budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2006.
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 totals.
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. Appropriations 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 prior to June 30, 2006. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
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.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all 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.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

During fiscal year 2006, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, and a money market mutual fund. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$173,399, which includes \$4,982 assigned from other funds.

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 District'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 expended/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

Capital 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$2,850. 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. The District does not possess infrastructure.

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:

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 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 June 30, 2006, 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 ten or more years of service or all employees with twenty or more years of service regardless of their age, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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.

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, and compensated absences, 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.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

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, school bus purchase, BWC refunds and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. 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.

The District had no restricted net assets by enabling legislation at June 30, 2006.

M. 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.

N. 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. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization and school bus purchases. See Note 16 for details.

O. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

Q. Vocational Education

The District has entered into a career technical education agreement with the Canton Local School District and the Sandy Valley Local School District to provide career technical education programs for students. The Canton Local School District is the principal agency for the programs and is responsible for the physical facilities of the programs. For fiscal year 2006, the District was required to pay the Canton Local School District a service charge equal to \$95,000 reduced by all State aid for District students attending the Canton Local School District for these programs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
SchoolNet Professional Development	\$ 10
Poverty Aid	1,265
Title VI-B	21,109
Title I	7,726
Reducing Class Size	3,625
Miscellaneous Federal Grants	7

**OSNABURG LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

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.

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 to 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;

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's 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 interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 year-end, the District had \$50 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, 2006, the carrying amount of all District deposits was \$3,905,571. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$3,639,098 of the District's bank balance of \$3,941,604 was exposed to custodial risk as discussed below, while \$302,506 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, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
FHLB	\$ 297,750	\$ 297,750
STAR Ohio	858,730	858,730
U.S. Government money market mutual fund	<u>7,927</u>	<u>7,927</u>
	<u>\$ 1,164,407</u>	<u>\$ 1,164,407</u>

The weighted average maturity of investments is .06 years.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 297,750	25.57%
STAR Ohio	858,730	73.75%
U.S. Government money market	7,927	0.68%
	<u>\$ 1,164,407</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment 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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,905,571
Investments	1,164,407
Cash on hand	50
Total	<u>\$ 5,070,028</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,966,660
Private-purpose trust funds	70,155
Agency fund	33,213
Total	<u>\$ 5,070,028</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 25,000

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

NOTE 6 - 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.

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. 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.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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

The District receives property taxes from Stark 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$173,700 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$164,390 in the general fund.

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.

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and public utility/minerals real estate				
Commercial/industrial real estate	\$ 79,013,490	86.86	\$ 79,500,580	90.22
Public utility personal	3,818,640	4.20	3,496,960	3.97
Tangible personal property	<u>8,136,975</u>	<u>8.94</u>	<u>5,120,430</u>	<u>5.81</u>
Total	<u>\$ 90,969,105</u>	<u>100.00</u>	<u>\$ 88,117,970</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation:		 \$57.20		 \$57.20

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 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	\$ 2,536,754
Accounts	2,841
Intergovernmental	<u>100,673</u>
Total	<u>\$ 2,640,268</u>

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

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 469,714	\$ -	\$ -	\$ 469,714
Total capital assets, not being depreciated	<u>469,714</u>	<u>-</u>	<u>-</u>	<u>469,714</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	694,666	-	-	694,666
Buildings and improvements	2,140,492	-	-	2,140,492
Furniture and equipment	482,780	20,360	(18,041)	485,099
Vehicles	813,460	80,211	(8,815)	884,856
Total capital assets, being depreciated	<u>4,131,398</u>	<u>100,571</u>	<u>(26,856)</u>	<u>4,205,113</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(245,858)	(39,009)	-	(284,867)
Buildings and improvements	(1,787,957)	(18,691)	-	(1,806,648)
Furniture and equipment	(333,970)	(46,299)	17,040	(363,229)
Vehicles	(438,389)	(87,038)	8,815	(516,612)
Total accumulated depreciation	<u>(2,806,174)</u>	<u>(191,037)</u>	<u>25,855</u>	<u>(2,971,356)</u>
Governmental activities capital assets, net	<u>\$ 1,794,938</u>	<u>\$ (90,466)</u>	<u>\$ (1,001)</u>	<u>\$ 1,703,471</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 41,378
Special	1,691
Vocational	785
<u>Support Services:</u>	
Pupil	713
Instructional staff	5,025
Administration	2,193
Fiscal	262
Operations and maintenance	8,456
Pupil transportation	86,839
Operation of non-instruction services	452
Extracurricular	41,936
Food service operations	1,307
Total depreciation expense	<u>\$ 191,037</u>

**OSNABURG LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences	\$ 359,668	\$ 91,101	\$ (56,000)	\$ 394,769	\$ 13,760
Total long-term obligations, governmental activities	<u>\$ 359,668</u>	<u>\$ 91,101</u>	<u>\$ (56,000)</u>	<u>\$ 394,769</u>	<u>\$ 13,760</u>

Compensated absences will be paid from the fund from which the employee is paid.

B. 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, 2006 are a voted debt margin of \$7,930,617 and an unvoted debt margin of \$88,118.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn 10 to 30 days of vacation per year, depending upon length of service and hours worked. Teachers do not earn vacation time. Administrators employed to work 260 days per year earn 20 days of vacation annually. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month up to a maximum of 285 days for classified employers and 295 days for certified employees. Upon retirement, classified employees and certified employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum of 64 days for both certified and classified employees.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided through the Stark County Schools Council of Governments Health Benefits Program, an insurance purchasing pool (Note 2.A)

C. Retirement Incentive

The District had a retirement incentive bonus in place during fiscal year 2006. This bonus is available to certified teaching employees in the amount of \$15,000. Employees retiring the first time they are eligible to retire based upon STRS eligibility will receive the bonus. First time eligibility means:

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 10 - EMPLOYEE BENEFITS – (Continued)

Any age with at least 30 years of service credit
Age 55 or over with at least 25 years of service credit
Age 60 or over with at least 5 years of service credit.

During fiscal 2006, no employee met the qualifications and elected to retire.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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. The District has contracted with Indiana Insurance Company for property, general and excess liability insurance, boiler and machinery, and inland marine with a \$5,000 deductible.

Indiana Insurance Company also covers computers, audio/visual equipment, musical instruments, playground, and miscellaneous equipment with a \$500 deductible.

Professional liability is protected by Indiana Insurance Company with a \$5,000,000 single occurrence, \$5,000,000 aggregate and \$1,000 deductible. Vehicles are also covered by Indiana Insurance Company and have a \$500 deductible for comprehensive and a \$250 deductible for collision. Automobile liability and vehicle liability both have a \$1,000,000 single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from 2005.

B. Workers' Compensation Plan

For fiscal year 2006, the District participated in the Stark County Schools Council of Governments 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. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Group Savings Fund". This "group savings" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control and actuarial services to the GRP.

**OSNABURG LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - RISK MANAGEMENT – (Continued)

C. Employee Group Health Insurance

The District has contracted with the Stark County Schools Council of Governments Health Benefits Program, an insurance purchasing pool (Note 2.A), to provide employee medical/surgical and dental benefits. The Stark County Schools Council's Health Benefits Program is a shared risk pool comprised of fifteen Stark County school districts. Rates are set through an annual calculation process. The District pays a monthly contribution which is paid in a common fund from which claim payments are made for all participants regardless of claims flow. The board of directors has the right to return monies to an exiting school district subsequent to the settlements of all expenses and claims. The District pays health premiums of \$810.17 for family coverage and \$333.50 for single coverage per employee per month and the District pays dental premiums of \$104.47 for family coverage and \$42.35 for single coverage per employee per month.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (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. That 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 (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$92,861, \$89,332, and \$70,529; 39.46 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. The District has elected to pay or "pick-up" 6% of the plan members required 10% retirement contribution as an employee fringe benefit. In addition, the District pays all additional retirement charges resulting from the "pick-up" (this is known as "pick-up" on "pick-up"); therefore, resulting in no additional charge to the employee.

**OSNABURG LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS 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, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$439,133, \$420,063 and \$395,973; 80.79 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$5,224 made by the District and \$12,757 made by the plan members. The District has elected to pay or "pick-up" the entire 10% of the plan members share of the retirement contribution. In addition, the District pays additional retirement charges resulting from the "pick-up" (this is known as "pick-up" on "pick-up"); therefore, resulting in no additional charge to the employee.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$33,779 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$47,898 to fund health care benefits, including the surcharge.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 14 - 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 Revenue, 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:

- (a) Revenues 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	\$ (91,484)
Net adjustment for revenue accruals	42,295
Net adjustment for expenditure accruals	(5,057)
Net adjustment for other sources/uses	650
Adjustment for encumbrances	<u>147,926</u>
GAAP basis	<u><u>\$ 94,330</u></u>

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 15 - 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.

NOTE 16 - 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, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Acquisition</u>	<u>Refunds</u>
Set-aside cash balance as of June 30, 2005	\$ (399,602)	\$ -	\$ 26,956
Current year set-aside requirement	136,564	136,564	-
Qualifying disbursements	<u>(222,389)</u>	<u>(173,512)</u>	<u>-</u>
Total	<u>\$ (485,427)</u>	<u>\$ (36,948)</u>	<u>\$ 26,956</u>
Cash balance carried forward to FY 2007	<u>\$ (485,427)</u>	<u>\$ -</u>	<u>\$ 26,956</u>

Monies representing Bureau of Workers' Compensation (BWC) refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by State statute. The District is still required by state law to maintain the textbook reserve and the capital acquisition reserve.

Although the District had offsets and 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.

**OSNABURG LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

NOTE 16 - STATUTORY RESERVES – (Continued)

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	\$ 4,347
Amounts restricted for budget reserve	<u>26,956</u>
Total restricted assets	<u>\$ 31,303</u>

NOTE 17 – SUBSEQUENT EVENTS

On February 6, 2007, District voters passed a 6.2 mill bond issue and related .5 mill maintenance levy for the construction of a new K-12 school building.

The \$23.5 million school building will be funded in part through the Ohio School Facilities Commission program which is expected to contribute \$14.8 million to match the \$8.7 million voters approved.



Mary Taylor, CPA

Auditor of State

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

Osnaburg Local School District
Stark County
310 East Browning Street
East Canton, Ohio 44730

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the discretely presented component unit and remaining fund information of Osnaburg Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures 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.

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*.

Osnaburg Local School District
Stark County
Independent Accountants' Report on Internal Control 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 management and the Board of Education.
It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 9, 2007



Mary Taylor, CPA
Auditor of State

OSNABURG LOCAL SCHOOL DISTRICT

STARK 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
MARCH 13, 2007**