



**Auditor of State
Betty Montgomery**

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Ontario Local School District
Richland County
457 Shelby-Ontario Road
Mansfield, Ohio 44906-1029

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of Ontario Local School District, Richland County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

November 18, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of Ontario Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 2004 are as follows:

In total, net assets increased \$223,422. Net assets of governmental activities increased \$216,502, which represents a 2.65% increase from 2003. Net assets of business-type activities increased \$6,920 or 37.16% from 2003.

General revenues of governmental activities accounted for \$14,016,974 in revenue or 90.02% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,553,953 or 9.98% of total revenues of \$15,570,927.

The District had \$15,354,425 in expenses related to governmental activities; only \$1,553,953 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,016,974 were used to provide for these programs.

The District's major governmental funds are the general fund and debt service fund. The general fund had \$11,997,370 in revenues and other financing sources and \$12,152,148 in expenditures. The fund balance of the general fund decreased from \$1,951,372 to \$1,807,601.

The District's other major governmental fund is the debt service fund. The debt service fund had \$1,841,592 in revenues and \$1,752,136 in expenditures. The fund balance of the debt service fund increased from \$855,757 to \$945,213.

Using this Financial Report

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

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

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

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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

**ONTARIO LOCAL SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Proprietary Fund

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-56 of this report.

The District as a Whole

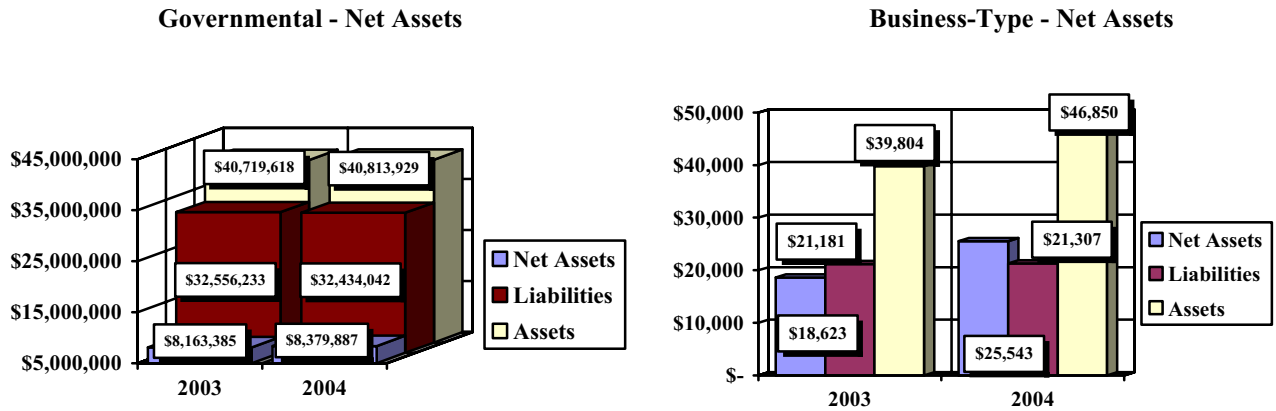
Recall that the Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets					
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities	Total	
	2004	2004	2003	2003	2004	2003
<u>Assets</u>						
Current assets	\$ 15,388,059	\$ 46,850	\$ 14,905,620	\$ 39,804	\$ 15,434,909	\$14,945,424
Capital assets, net	25,425,870	-	25,813,998	-	25,425,870	25,813,998
Total assets	40,813,929	46,850	40,719,618	39,804	40,860,779	40,759,422
<u>Liabilities</u>						
Current liabilities	11,816,192	11,006	11,450,900	12,290	11,827,198	11,463,190
Long-term liabilities	20,617,850	10,301	21,105,333	8,891	20,628,151	21,114,224
Total liabilities	32,434,042	21,307	32,556,233	21,181	32,455,349	32,577,414
<u>Net Assets</u>						
Invested in capital assets, net of related debt	7,125,885	-	6,689,013	-	7,125,885	6,689,013
Restricted	1,073,329	-	1,214,354	-	1,073,329	1,214,354
Unrestricted	180,673	25,543	260,018	18,623	206,216	278,641
Total net assets	<u>\$ 8,379,887</u>	<u>\$ 25,543</u>	<u>\$ 8,163,385</u>	<u>\$ 18,623</u>	<u>\$ 8,405,430</u>	<u>\$ 8,182,008</u>

Total net assets increased by \$223,422 due primarily to revenues increasing faster than expenses.

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

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The table below shows the changes in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental	Business-Type	Governmental	Business-Type	Total	
	Activities	Activities	Activities	Activities	2004	2003
	2004	2004	2003	2003	2004	2003
Revenues						
Program revenues:						
Charges for services and sales	\$ 976,502	\$ 61,679	\$ 975,348	\$ 57,651	\$ 1,038,181	\$ 1,032,999
Operating grants and contributions	577,451	-	404,843	-	577,451	404,843
Capital grants and contributions	-	-	27,608	-	-	27,608
General revenues:						
Property taxes	11,222,550	-	10,386,633	-	11,222,550	10,386,633
Grants and entitlements	2,638,284	-	2,673,932	-	2,638,284	2,673,932
Investment earnings	71,141	-	107,993	-	71,141	107,993
Miscellaneous	84,999	150	59,818	-	85,149	59,818
Special item	-	-	98,010	-	-	98,010
Total revenues	\$ 15,570,927	\$ 61,829	\$ 14,734,185	\$ 57,651	\$ 15,632,756	\$ 14,791,836

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED**

	Governmental	Business-Type	Governmental	Business-Type	Total	
	Activities	Activities	Activities	Activities	2004	2003
	2004	2004	2003	2003	2004	2003
Expenses						
Program expenses:						
Instruction:						
Regular	\$ 5,993,705	\$ -	\$ 5,779,080	\$ -	\$ 5,993,705	\$ 5,779,080
Special	877,233	-	728,173	-	877,233	728,173
Vocational	271,197	-	261,484	-	271,197	261,484
Other	143,895	-	131,009	-	143,895	131,009
Support services:						
Pupil	688,991	-	704,919	-	688,991	704,919
Instructional staff	825,521	-	721,277	-	825,521	721,277
Board of education	38,508	-	34,167	-	38,508	34,167
Administration	1,144,443	-	1,058,102	-	1,144,443	1,058,102
Fiscal	457,351	-	515,911	-	457,351	515,911
Operations and maintenance	1,644,454	-	1,799,582	-	1,644,454	1,799,582
Pupil transportation	814,904	-	732,976	-	814,904	732,976
Central	24,720	-	26,005	-	24,720	26,005
Operation of non-instructional services:						
Food service operations	627,613	-	628,666	-	627,613	628,666
Other non-instructional services	32,822	-	32,265	-	32,822	32,265
Extracurricular activities	680,897	-	536,456	-	680,897	536,456
Interest and fiscal charges	1,088,171	-	1,093,054	-	1,088,171	1,093,054
Preschool/latchkey	-	54,909	-	50,978	54,909	50,978
Total expenses	<u>15,354,425</u>	<u>54,909</u>	<u>14,783,126</u>	<u>50,978</u>	<u>15,409,334</u>	<u>14,834,104</u>
Changes in net assets	\$ <u>216,502</u>	\$ <u>6,920</u>	\$ <u>(48,941)</u>	\$ <u>6,673</u>	\$ <u>223,422</u>	\$ <u>(42,268)</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$216,502. Total governmental expenses of \$15,354,425 were offset by program revenues of \$1,553,953, and general revenues of \$14,016,974. Program revenues supported 10.12% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 89.02% of total governmental revenue. Real estate property is reappraised every six years. As a result of the latest reappraisal by Richland County in tax year 2002, the District's tax valuation increased by 7% that year. Although recent growth has had a positive effect on the District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. H.B. 920 also provided a "floor" of 20 mills to which "effective millage", would not be reduced below. The District is at the 20 mill floor for Residential Real Estate Tax, but is not at the 20 mill floor for Commercial Real Estate Tax. Thus, although District tax valuation continues to grow, this built-in revenue limitation is one of the factors that require the District to request additional school operating revenue by placing a levy on the ballot periodically.

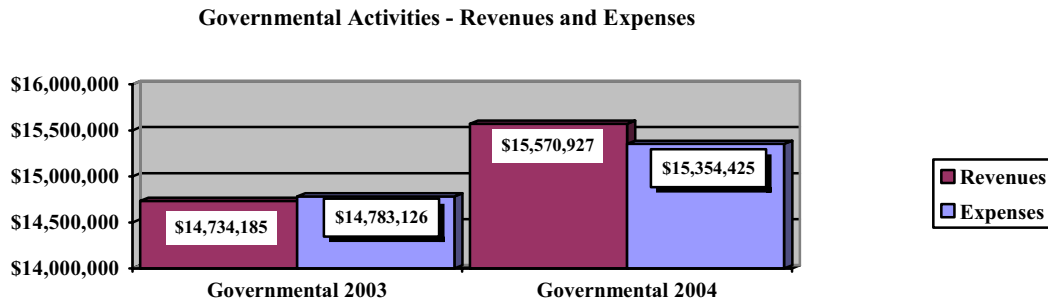
**ONTARIO LOCAL SCHOOL DISTRICT
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Voters approved the last additional operating levy in May 1992, which was a renewable 5 year dollar levy in the annual amount of \$1,320,000. This levy amount required 6.6 mills to be levied in 1992. In 2004 only 4.3 mills were required to be levied to generate \$1,320,000. This levy is expected to provide adequate revenue for general fund operating expenditures through the fiscal year 2005. Unless there is an unexpected adjustment in State funding, an additional operating levy will be required in the next twelve to eighteen months

The District's financial condition is solid as of the end of fiscal year 2004, but a trend of expenses exceeding revenues appears to have begun. This trend is expected to continue the next two years. The principle cause is stagnate growth in revenue coupled with major increases in health insurance costs, special education costs, and utility costs.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003. As a point of clarification, in 2004 the District received approximately \$229,000 in tax receipts that were actually 2003 taxes. There was a billing problem in 2003 at the Richland County Auditor's office that resulted in the late collection of several businesses' property taxes. Thus 2003 revenues were understated and 2004 revenues are overstated by approximately \$229,000.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2004 and 2003. 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 <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses:				
Instruction:				
Regular	\$ 5,993,705	\$ 5,679,628	\$ 5,779,080	\$ 5,456,758
Special	877,233	617,560	728,173	577,771
Vocational	271,197	271,197	261,484	261,484
Other	143,895	143,895	131,009	131,009

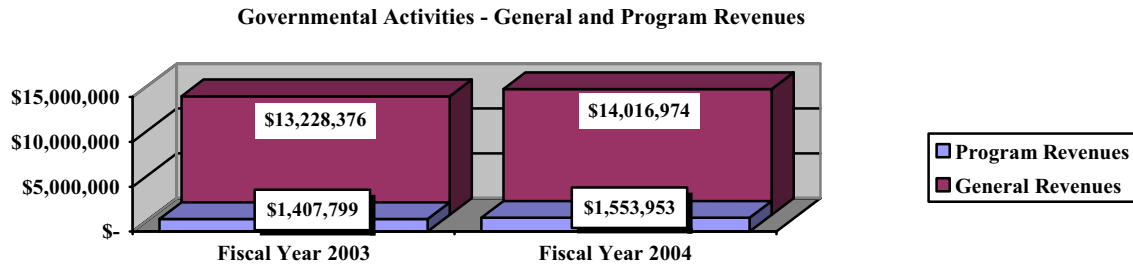
**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Support services:				
Pupil	\$ 688,991	\$ 640,192	\$ 704,919	\$ 636,483
Instructional staff	825,521	736,541	721,277	689,465
Board of Education	38,508	38,508	34,167	34,167
Administration	1,144,443	1,144,443	1,058,102	1,058,102
Fiscal	457,351	457,351	515,911	515,911
Operations and maintenance	1,644,454	1,604,237	1,799,582	1,757,212
Pupil transportation	814,904	812,994	732,976	722,414
Central	24,720	18,354	26,005	19,485
Operation of non-instructional services:				
Food service operations	627,613	70,153	628,666	152,604
Other operation of non-instructional services	32,822	26,324	32,265	(39,452)
Extracurricular activities	680,897	450,924	536,456	308,860
Interest and fiscal charges	1,088,171	1,088,171	1,093,054	1,093,054
Total	\$ 15,354,425	\$ 13,800,472	\$ 14,783,126	\$ 13,375,327

The dependence upon tax revenues during fiscal year 2004 for governmental activities is apparent, as 92.13% of 2004 instruction activities are supported through taxes and other general revenues. The District's taxpayers, as a whole, are by far the primary support for the District's students, of which businesses pay 62% and residents pay 38% of the total taxes.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



Business-Type Activities

Business-type activities include preschool/latchkey operations. These programs had revenues of \$61,829 and expenses of \$54,909 for fiscal year 2004. The District's business-type activities do not receive support from tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$2,936,058, which is below last year's total of \$3,202,530. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance June 30, 2004</u>	<u>Fund Balance June 30, 2003</u>	<u>Increase/ (Decrease)</u>
General	\$ 1,807,601	\$ 1,951,372	\$ (143,771)
Debt Service	945,213	855,757	89,456
Other Governmental	<u>183,244</u>	<u>395,401</u>	<u>(212,157)</u>
Total	<u>\$ 2,936,058</u>	<u>\$ 3,202,530</u>	<u>\$ (266,472)</u>

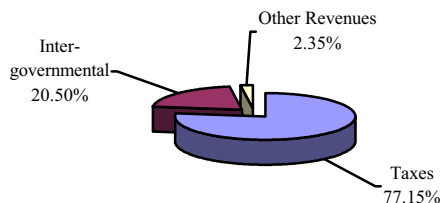
General Fund

The District's general fund balance decreased by \$143,771 during 2004. The following expenditures were the principal reason why our expenditures outpaced our revenues. Health insurance costs increased 13%, maintenance and custodial supplies increased 22% due to the first time replacement of many building supplies since the construction of the new buildings in 2001, bus fuel costs increased 12% due to rising fuel costs and county auditor and treasurer fees increased 12% due to increased taxes collected.

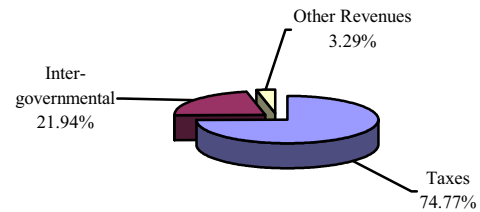
	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 9,255,234	\$ 8,535,887	8.43 %
Intergovernmental	2,458,979	2,504,080	(1.80) %
Other revenues	<u>282,152</u>	<u>375,044</u>	(24.77) %
Total	<u>\$ 11,996,365</u>	<u>\$ 11,415,011</u>	5.09 %

Tax revenue increased by \$719,347 or 8.43% from fiscal 2003. (The actual increase was approximately \$261,347 or 3.06% after accounting for the adjustment for 2003 taxes collected in 2004, explained on page 8, paragraph 3). Intergovernmental revenue decreased \$45,101 or 1.80% from the prior year. This decrease is attributed to a decrease in the number of grants the district received in 2004. Other revenues declined partially due to a \$41,977 or 35.84% decrease in investment income. This is attributable to drastic cuts in interest rates by the Federal Reserve Bank throughout the year.

Revenues - Fiscal Year 2004



Revenues - Fiscal Year 2003



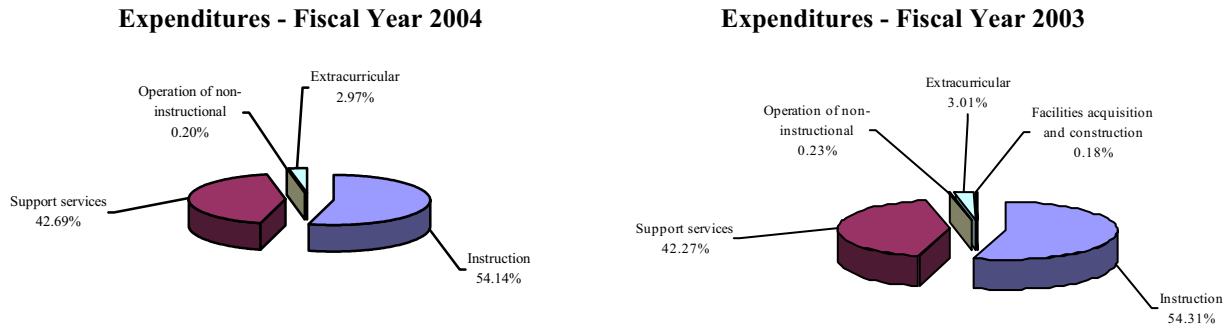
**ONTARIO LOCAL SCHOOL DISTRICT
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The table that follows assists in illustrating the expenditures of the general fund.

	<u>2004</u> Amount	<u>2003</u> Amount	<u>Percentage</u> Change
<u>Expenditures</u>			
Instruction	\$ 6,579,075	\$ 6,248,529	5.29 %
Support services	5,188,140	4,863,050	6.68 %
Operation of non-instructional services	24,455	26,536	(7.84) %
Extracurricular activities	360,478	345,848	4.23 %
Facilities acquisition and construction	-	20,400	(100.00) %
Total	<u>\$ 12,152,148</u>	<u>\$ 11,504,363</u>	5.63 %

The most significant decrease was in the area of facilities acquisition and construction, due to an overall decrease in capital spending by the District. The largest expenditure line item, instruction, increased by \$330,546 or 5.29%, which is primarily attributed to wage and benefit increases. Support services increased by \$325,090 or 6.68%, which is also primarily attributable to wage and benefit increases.



Debt Service Fund

The District's other major governmental fund is the debt service fund. The debt service fund had \$1,841,592 in revenues and \$1,752,136 in expenditures. The fund balance of the debt service fund increased \$89,456 from \$855,757 to \$945,213.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the District amended its general fund budget one time, not significantly. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

**ONTARIO LOCAL SCHOOL DISTRICT
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For the general fund, final budgeted revenues and other financing sources were \$118,428 below actual revenues and other financing sources of \$12,201,788. Of this \$118,428 difference, most was due to tax estimates in the original and final budget. The District amended its original budgeted revenues of the general fund one time during fiscal 2004.

General fund original appropriations and other financing uses of \$12,091,574 were increased to \$12,106,233 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$11,938,733, which was \$167,500 less than the final budget appropriations, primarily because salary and benefit costs proved to be lower than anticipated in the original and final budget.

Capital Assets and Debt Administration

Capital Assets

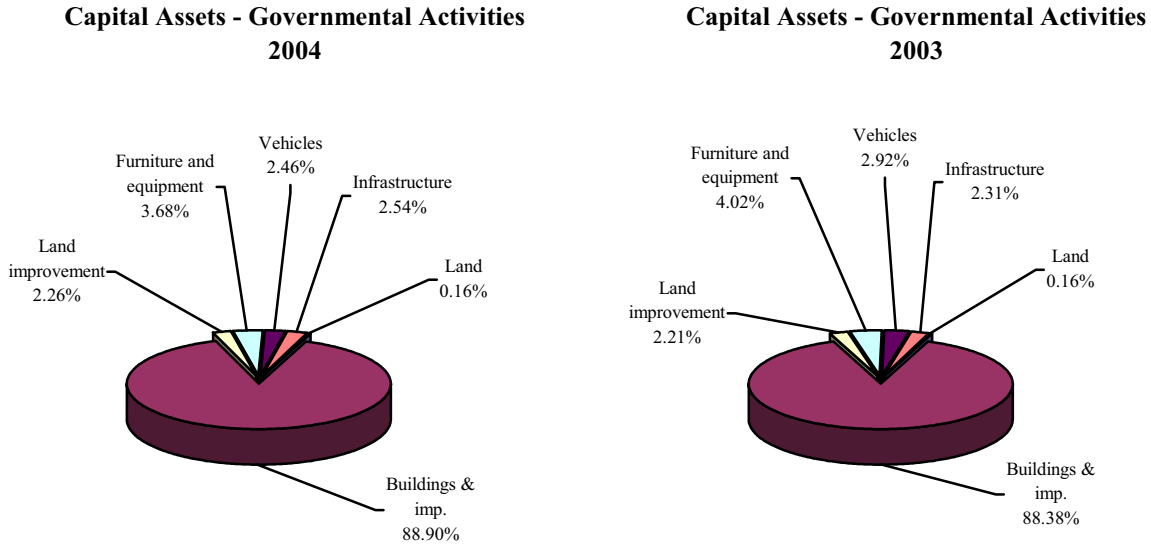
There are no capital assets reported in the business-type activities at June 30, 2004. At the end of fiscal year 2004, the District had \$25,425,870 invested in land, land/improvements, buildings/improvements, furniture/equipment, vehicles and infrastructure. The following table shows fiscal year 2004 balances compared to 2003:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 40,839	\$ 40,839
Land/improvements	575,210	571,524
Building/improvements	22,602,355	22,812,431
Furniture/equipment	936,799	1,038,833
Vehicles	625,520	753,430
Infrastructure	<u>645,147</u>	<u>596,941</u>
Total	<u>\$ 25,425,870</u>	<u>\$ 25,813,998</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The following graphs show the breakdown of governmental activities capital assets by category for 2004 and 2003.



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

Debt Administration

At June 30, 2004 the District had \$19,137,291 in general obligation bonds outstanding. The issue is comprised of current issue bonds and capital appreciation bonds. Of this total, \$665,000 is due within one year and \$18,472,291 is due within more than one year. The following table summarizes the bonds outstanding:

Outstanding Debt at June 30

	Governmental Activities 2004	Governmental Activities 2003
Current interest bonds	\$ 17,670,000	\$ 18,495,000
Capital appreciation bonds	<u>1,467,291</u>	<u>1,269,998</u>
Total	<u>\$ 19,137,291</u>	<u>\$ 19,764,998</u>

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

See Note 9 to the basic financial statements for detail on the District's debt administration.

At June 30, 2004 the District's overall legal debt margin was \$13,250,645 (including available funds of \$945,213) and an unvoted debt margin of \$349,364.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

The District has entered the beginning of a deficit spending cycle. Our revenues are projected to remain flat over the next couple of years. Along with anticipated health care cost increases of 15% to 18% and increasing fuel costs, it is projected that our expenditures will continue to exceed our revenues. In order to maintain the current curricular and co-curricular programs for our students, an additional operating levy will be required. A \$2,285,000, 5 year emergency levy was placed on the August 3, 2004 ballot. It did not pass. The Board of Education has placed the same issue on the November 2, 2004 ballot. It did not pass.

Traditionally, our community has been supportive of school tax issues. We have had only three levy attempts fail in the last 28 years. In today's climate of no tax increases, passing an additional tax levy will be a challenge. The key will be informing our voters why this need exists. We also must explain that ever since the DeRolph case declared the current state funding formula unconstitutional, the State has been directing additional revenue to low property wealth districts and not districts such as ours. The only way that districts such as ours can anticipate additional funding is through local property tax levies.

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 3,941,588	\$ 46,850	\$ 3,988,438
Receivables:			
Taxes	11,225,743	-	11,225,743
Accounts	9,297	-	9,297
Intergovernmental	88,964	-	88,964
Prepayments	9,129	-	9,129
Materials and supplies inventory	113,338	-	113,338
Capital assets:			
Land	40,839	-	40,839
Depreciable capital assets, net	25,385,031	-	25,385,031
Capital assets, net.	<u>25,425,870</u>	<u>-</u>	<u>25,425,870</u>
 Total assets.	 <u>40,813,929</u>	 <u>46,850</u>	 <u>40,860,779</u>
Liabilities:			
Accounts payable.	110,982	-	110,982
Accrued wages and benefits	1,304,384	5,613	1,309,997
Pension obligation payable.	348,761	1,015	349,776
Intergovernmental payable	36,463	153	36,616
Deferred revenue	9,946,155	4,225	9,950,380
Accrued interest payable	69,447	-	69,447
Long-term liabilities:			
Due within one year.	956,522	-	956,522
Due within more than one year	19,661,328	10,301	19,671,629
Total liabilities	<u>32,434,042</u>	<u>21,307</u>	<u>32,455,349</u>
Net Assets:			
Invested in capital assets, net of related debt.	7,125,885	-	7,125,885
Restricted for:			
Capital projects	82,353	-	82,353
Debt service.	950,222	-	950,222
Other purposes	40,754	-	40,754
Unrestricted.	<u>180,673</u>	<u>25,543</u>	<u>206,216</u>
Total net assets	<u>\$ 8,379,887</u>	<u>\$ 25,543</u>	<u>\$ 8,405,430</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Instruction:			
Regular	\$ 5,993,705	\$ 219,524	\$ 94,553
Special	877,233	-	259,673
Vocational	271,197	-	-
Other	143,895	-	-
Support services:			
Pupil	688,991	48,566	233
Instructional staff	825,521	23,217	65,763
Board of education	38,508	-	-
Administration	1,144,443	-	-
Fiscal	457,351	-	-
Operations and maintenance	1,644,454	40,217	-
Pupil transportation	814,904	-	1,910
Central	24,720	-	6,366
Operation of non-instructional services:			
Food service operations	627,613	414,975	142,485
Other non-instructional services	32,822	30	6,468
Extracurricular activities	680,897	229,973	-
Interest and fiscal charges	1,088,171	-	-
Total governmental activities	<u>15,354,425</u>	<u>976,502</u>	<u>577,451</u>
Business-type activities:			
Preschool/latchkey	<u>54,909</u>	<u>61,679</u>	<u>-</u>
Total business-type activities	<u>54,909</u>	<u>61,679</u>	<u>-</u>
Totals	<u>\$ 15,409,334</u>	<u>\$ 1,038,181</u>	<u>\$ 577,451</u>

General Revenues:

Property taxes levied for:
General purposes
Debt service
Capital projects
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
 Total general revenues
 Change in net assets
 Net assets at beginning of year
 Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (5,679,628)	\$ -	\$ (5,679,628)
(617,560)	-	(617,560)
(271,197)	-	(271,197)
(143,895)	-	(143,895)
(640,192)	-	(640,192)
(736,541)	-	(736,541)
(38,508)	-	(38,508)
(1,144,443)	-	(1,144,443)
(457,351)	-	(457,351)
(1,604,237)	-	(1,604,237)
(812,994)	-	(812,994)
(18,354)	-	(18,354)
(70,153)	-	(70,153)
(26,324)	-	(26,324)
(450,924)	-	(450,924)
(1,088,171)	-	(1,088,171)
(13,800,472)	-	(13,800,472)
-	6,770	6,770
-	6,770	6,770
(13,800,472)	6,770	(13,793,702)
9,386,035	-	9,386,035
1,689,237	-	1,689,237
147,278	-	147,278
2,638,284	-	2,638,284
71,141	-	71,141
84,999	150	85,149
14,016,974	150	14,017,124
216,502	6,920	223,422
8,163,385	18,623	8,182,008
\$ 8,379,887	\$ 25,543	\$ 8,405,430

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,813,711	\$ 850,902	\$ 243,598	\$ 3,908,211
Receivables:				
Taxes	9,383,127	1,519,355	323,261	11,225,743
Accounts	6,162	-	3,135	9,297
Intergovernmental	26,961	-	62,003	88,964
Interfund loan receivable	21,500	-	-	21,500
Prepayments	9,129	-	-	9,129
Materials and supplies inventory	99,438	-	13,900	113,338
Restricted assets:				
Equity in pooled cash and cash equivalents	33,377	-	-	33,377
Total assets	<u>\$ 12,393,405</u>	<u>\$ 2,370,257</u>	<u>\$ 645,897</u>	<u>\$ 15,409,559</u>
Liabilities:				
Accounts payable	\$ 75,151	\$ -	\$ 35,831	\$ 110,982
Accrued wages and benefits	1,230,158	-	74,226	1,304,384
Compensated absences payable	245,937	-	-	245,937
Pension obligation payable	234,437	-	11,651	246,088
Intergovernmental payable	34,409	-	2,054	36,463
Interfund loan payable	-	-	21,500	21,500
Deferred revenue	8,765,712	1,425,044	317,391	10,508,147
Total liabilities	<u>10,585,804</u>	<u>1,425,044</u>	<u>462,653</u>	<u>12,473,501</u>
Fund Balances:				
Reserved for encumbrances	55,909	-	-	55,909
Reserved for materials and supplies inventory	99,438	-	13,900	113,338
Reserved for prepayments	9,129	-	-	9,129
Reserved for property tax unavailable for appropriation	459,184	74,650	15,910	549,744
Reserved for school bus purchases	33,377	-	-	33,377
Unreserved, undesignated, reported in:				
General fund	1,150,564	-	-	1,150,564
Special revenue funds	-	-	102,859	102,859
Debt service fund	-	870,563	-	870,563
Capital projects funds	-	-	50,575	50,575
Total fund balances	<u>1,807,601</u>	<u>945,213</u>	<u>183,244</u>	<u>2,936,058</u>
Total liabilities and fund balances	<u>\$ 12,393,405</u>	<u>\$ 2,370,257</u>	<u>\$ 645,897</u>	<u>\$ 15,409,559</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 2,936,058
<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.		25,425,870
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 548,314	
Intergovernmental	<u>13,678</u>	
Total		561,992
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,234,622)	
Pension obligation payable	(102,673)	
General obligation bonds payable	(19,137,291)	
Accrued interest payable	<u>(69,447)</u>	
Total		<u>(20,544,033)</u>
Net assets of governmental activities		<u>\$ 8,379,887</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 9,255,234	\$ 1,677,384	\$ 137,561	\$ 11,070,179
Tuition.	75,794	-	-	75,794
Charges for services.	-	-	414,975	414,975
Earnings on investments.	75,159	-	776	75,935
Extracurricular.	-	-	241,702	241,702
Classroom materials and fees	74,583	-	37,365	111,948
Other local revenues.	56,616	-	160,466	217,082
Other revenue	-	-	3,000	3,000
Intergovernmental - State	2,457,497	164,208	85,098	2,706,803
Intergovernmental - Federal.	1,482	-	501,017	502,499
Total revenue	<u>11,996,365</u>	<u>1,841,592</u>	<u>1,581,960</u>	<u>15,419,917</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,600,548	-	161,453	5,762,001
Special.	576,461	-	254,103	830,564
Vocational.	258,171	-	-	258,171
Other	143,895	-	-	143,895
Support Services:				
Pupil.	609,220	-	47,862	657,082
Instructional staff	699,047	-	88,250	787,297
Board of education	38,058	-	-	38,058
Administration.	1,103,718	-	-	1,103,718
Fiscal	418,642	33,545	2,696	454,883
Operations and maintenance.	1,600,818	-	12,450	1,613,268
Pupil transportation	700,195	-	1,961	702,156
Central.	18,442	-	6,330	24,772
Operation of non-instructional services:				
Food service operations	-	-	576,403	576,403
Other non-instructional services	24,455	-	6,498	30,953
Extracurricular activities.	360,478	-	212,995	573,473
Facilities acquisition and construction	-	-	430,210	430,210
Debt service:				
Principal retirement	-	825,000	-	825,000
Interest and fiscal charges	-	893,591	-	893,591
Total expenditures	<u>12,152,148</u>	<u>1,752,136</u>	<u>1,801,211</u>	<u>15,705,495</u>
Excess of revenues over/(under) expenditures	<u>(155,783)</u>	<u>89,456</u>	<u>(219,251)</u>	<u>(285,578)</u>
Other financing sources:				
Proceeds from sale of capital assets.	1,005	-	200	1,205
Total other financing sources.	<u>1,005</u>	<u>-</u>	<u>200</u>	<u>1,205</u>
Net change in fund balances	(154,778)	89,456	(219,051)	(284,373)
Fund balances at beginning of year	1,951,372	855,757	395,401	3,202,530
Increase in reserve for inventory.	11,007	-	6,894	17,901
Fund balances at end of year.	<u>\$ 1,807,601</u>	<u>\$ 945,213</u>	<u>\$ 183,244</u>	<u>\$ 2,936,058</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(284,373)
<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. This is the amount by which depreciation expense exceeds capital outlays in the current period.		(359,185)
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(28,943)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		17,901
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		151,010
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		825,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(194,580)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		89,672
Change in net assets of governmental activities	\$	216,502

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 8,813,068	\$ 9,204,570	\$ 9,402,130	\$ 197,560
Tuition	83,200	89,915	116,551	26,636
Earnings on investments	80,000	80,000	86,558	6,558
Classroom materials and fees	78,000	78,000	74,583	(3,417)
Other local revenues	58,400	58,400	37,614	(20,786)
Intergovernmental - State	2,422,009	2,560,775	2,476,319	(84,456)
Intergovernmental - Federal	500	500	651	151
Total revenue	<u>11,535,177</u>	<u>12,072,160</u>	<u>12,194,406</u>	<u>122,246</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,421,065	5,530,226	5,420,985	109,241
Special	621,029	621,029	644,847	(23,818)
Vocational	254,338	262,838	258,316	4,522
Other	150,160	150,160	143,895	6,265
Support services:				
Pupil	615,862	613,930	603,867	10,063
Instructional staff	664,851	665,851	657,118	8,733
Board of education	40,471	40,471	35,515	4,956
Administration	1,088,526	1,088,126	1,072,097	16,029
Fiscal	408,200	408,200	423,142	(14,942)
Operations and maintenance	1,603,232	1,603,232	1,581,203	22,029
Pupil transportation	709,987	709,987	672,662	37,325
Central	22,424	22,424	18,443	3,981
Operation of non-instructional services	24,456	24,456	24,455	1
Extracurricular activities	365,303	365,303	360,688	4,615
Total expenditures	<u>11,989,904</u>	<u>12,106,233</u>	<u>11,917,233</u>	<u>189,000</u>
Excess of revenues over (under) expenditures	<u>(454,727)</u>	<u>(34,073)</u>	<u>277,173</u>	<u>311,246</u>
Other financing sources (uses):				
Refund of prior year expenditure	11,200	11,200	6,377	(4,823)
Advances (out)	-	-	(21,500)	(21,500)
Proceeds from sale of capital assets	-	-	1,005	1,005
Contingencies	(101,670)	-	-	-
Total other financing sources (uses)	<u>(90,470)</u>	<u>11,200</u>	<u>(14,118)</u>	<u>(25,318)</u>
Net change in fund balance	(545,197)	(22,873)	263,055	285,928
Fund balance at beginning of year	2,441,749	2,441,749	2,441,749	-
Prior year encumbrances appropriated	20,828	20,828	20,828	-
Fund balance at end of year	<u>\$ 1,917,380</u>	<u>\$ 2,439,704</u>	<u>\$ 2,725,632</u>	<u>\$ 285,928</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Nonmajor Enterprise Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 46,850
Total current assets	46,850
Liabilities:	
Current liabilities:	
Accrued wages and benefits	5,613
Pension obligation payable.	1,015
Intergovernmental payable	153
Deferred revenue	4,225
Total current liabilities	11,006
Long-term liabilities:	
Compensated absences.	10,301
Total liabilities	21,307
Net assets:	
Unrestricted.	25,543
Total net assets	\$ 25,543

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Nonmajor Enterprise Fund
Operating revenues:	
Tuition and fees	\$ 61,679
Other.	150
Total operating revenues	61,829
Operating expenses:	
Personal services.	48,427
Purchased services.	769
Materials and supplies	5,713
Total operating expenses	54,909
Change in net assets.	6,920
Net assets at beginning of year	18,623
Net assets at end of year	\$ 25,543

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		Nonmajor Enterprise Fund
Cash flows from operating activities:		
Cash received from tuition and fees.	\$	60,977
Cash received from other operations		150
Cash payments for personal services		(47,599)
Cash payments for purchased services		(769)
Cash payments for materials and supplies.		(5,713)
		7,046
Net cash provided by operating activities		7,046
Net increase in cash and cash equivalents		7,046
Cash and cash equivalents at beginning of year . . .		39,804
Cash and cash equivalents at end of year.	\$	46,850
		46,850
Reconciliation of operating income to net cash provided by operating activities:		
Operating income.	\$	6,920
Changes in assets and liabilities:		
Increase in accrued wages and benefits		101
Decrease in pension obligation payable		(696)
Increase in intergovernmental payable.		13
Increase in compensated absences payable		1,410
Decrease in deferred revenue		(702)
		7,046
Net cash provided by operating activities.	\$	7,046
		7,046

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 16,397	\$ 69,295
Receivables:		
Accounts	-	66
Total assets.	16,397	69,361
Liabilities:		
Accounts payable	-	600
Accrued wages and benefits	-	692
Pension obligation payable	-	244
Intergovernmental payable	-	4,079
Due to students	-	63,746
Total liabilities	-	\$ 69,361
Net Assets:		
Held in trust for scholarships	16,397	
Total net assets	\$ 16,397	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 624
Total additions.	624
Deductions:	
Scholarships awarded	5,750
Change in net assets	(5,126)
Net assets at beginning of year.	21,523
Net assets at end of year	\$ 16,397

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District operates under a locally-elected five-member Board of Education (Board) and provides educational services as authorized by state and/or federal agencies. The Board controls the District's four instructional/support facilities which are staffed by 75 classified, 103 certificated full-time teaching personnel, and 10 administrators who provide services to 1,780 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments (the "COG")

The COG is a joint venture among 15 school districts, 1 educational service center, and 1 career and technology center. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge dependent upon the software package utilized. In the event of dissolution of the COG, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contribution. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

INSURANCE PURCHASING POOL

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

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

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

GROUP PURCHASING POOL

Metropolitan Educational Council (MEC)

The District is a member of the Metropolitan Educational Council (MEC) purchasing group. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases. The District paid MEC a total of \$1,102 in administrative fees during fiscal year 2004.

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUND

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

Enterprise Fund - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party 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.

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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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 operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated budget for all funds. The specific timetable for fiscal year 2004 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2004.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level, which is the legal level of control.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to federal agency notes, repurchase agreements, certificates of deposit, State Treasury Asset Reserve (STAR Ohio), U.S. government money market fund, and an open-ended mutual fund. Investments are reported at fair value, which is based on quoted market prices, with the following exceptions: nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost and investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. During fiscal year 2004, interest revenue credited to the General Fund amounted to \$75,159, which included \$23,700 assigned from other District funds.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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:

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

M. Operating Revenues and Expenses

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

N. Net Assets

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

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

O. Prepayments

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

P. 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.

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District reports restricted assets for school bus purchases. See Note 16 for details.

R. Interfund Activity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information System	\$ 171
Title VI-B	2,096
Title I	3,633
Reducing Class Size	123

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 resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (Continued)

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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reserve Repurchase Agreements".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Deposits: At year-end, the carrying amount of the District's deposits was \$2,487,691 and the bank balance was \$2,532,318. The bank balance includes non-negotiable certificates of deposit and a clearance account to service payroll. While the respective expenditures were recognized by the District, a bank balance of \$2,696 remained in this clearing account. Of the bank balance:

1. \$1,684,000 was covered by federal depository insurance; and
2. \$848,318 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio, the Lincoln National Annuity and the U.S. government money market fund are unclassified investments as they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Reported Amount	Fair Value
Federal agency securities	\$305,937	\$305,937	\$305,937
Investment in STAR Ohio		622,348	622,348
Lincoln National Annuity		16,398	16,398
U.S. Government money market fund		641,656	641,656
Total investments		\$ 1,586,339	\$ 1,586,339

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,074,130	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(622,348)	622,348
Federal agency securities	(305,937)	305,937
(Lincoln National Annuity) mutual fund	(16,398)	16,398
U.S. Government money market fund	(641,656)	641,656
Cash on hand	(100)	-
GASB Statement No. 3	<u>\$ 2,487,691</u>	<u>\$ 1,586,339</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 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 fund	\$ 21,500

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

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 year 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$459,184 in the general fund, \$74,650 in the debt service fund, and \$15,910 in the capital projects fund. The amount available for advance at June 30, 2003 was \$496,794 in the general fund, \$95,054 in the debt service fund, and \$9,339 in the capital projects fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 253,867,320	75.27	\$ 262,614,620	75.17
Public Utility Personal	9,563,500	2.84	9,144,440	2.62
Tangible Personal Property	<u>73,830,910</u>	<u>21.89</u>	<u>77,604,530</u>	<u>22.21</u>
Total	<u>\$ 337,261,730</u>	<u>100.00</u>	<u>\$ 349,363,590</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 38.70		\$ 38.70	
Debt service	5.70		4.70	
Permanent improvement	-		1.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 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	
Property taxes	\$ 11,225,743
Accounts	9,297
Intergovernmental	<u>88,964</u>
Total	<u>\$ 11,324,004</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 40,839	\$ -	\$ -	\$ 40,839
<i>Capital assets, being depreciated:</i>				
Land/improvements	885,244	44,575	-	929,819
Building/improvements	27,259,003	339,454	-	27,598,457
Furniture/equipment	1,805,751	9,500	(10,956)	1,804,295
Vehicles	1,349,405	-	(68,411)	1,280,994
Infrastructure	610,027	61,935	-	671,962
Total capital assets, being depreciated	<u>31,909,430</u>	<u>455,464</u>	<u>(79,367)</u>	<u>32,285,527</u>
<i>Less: accumulated depreciation</i>				
Land/improvements	(313,720)	(40,889)	-	(354,609)
Building/improvements	(4,446,572)	(549,530)	-	(4,996,102)
Furniture/equipment	(766,918)	(111,534)	10,956	(867,496)
Vehicles	(595,975)	(98,967)	39,468	(655,474)
Infrastructure	(13,086)	(13,729)	-	(26,815)
Total accumulated depreciation	<u>(6,136,271)</u>	<u>(814,649)</u>	<u>50,424</u>	<u>(6,900,496)</u>
Governmental activities capital assets, net	<u>\$ 25,813,998</u>	<u>\$ (359,185)</u>	<u>\$ (28,943)</u>	<u>\$ 25,425,870</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 365,806
Special	22,457
Vocational	10,135
<u>Support Services:</u>	
Pupil	27,198
Instructional staff	66,576
Administration	14,468
Fiscal	2,534
Operations and maintenance	57,860
Pupil transportation	96,402
<u>Operation of non-instructional services:</u>	
Other non-instructional services	1,869
Food service operations	67,586
Extracurricular activities	<u>81,758</u>
Total depreciation expense	<u>\$ 814,649</u>

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2004</u>	Amounts Due in <u>One Year</u>
General obligation bonds	\$ 19,764,998	\$ 197,293	\$ (825,000)	\$ 19,137,291	\$ 665,000
Compensated absences	<u>1,340,335</u>	<u>210,708</u>	<u>(70,484)</u>	<u>1,480,559</u>	<u>291,522</u>
Total governmental activities	<u>\$ 21,105,333</u>	<u>\$ 408,001</u>	<u>\$ (895,484)</u>	<u>\$ 20,617,850</u>	<u>\$ 956,522</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

This issue is comprised of both current interest bonds, par value \$20,620,000, and capital appreciation bonds, par value \$629,985. The interest rates on the current interest bonds range from 4.05% to 5.375%. The capital appreciation bonds mature on December 1, 2005 (effective interest 16.30%), December 1, 2006 (effective interest 14.75%) and December 1, 2007 (effective interest 13.85%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value reported in the Statement of Net Assets at June 30, 2004, was \$1,467,291. A total of \$837,306 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2004.

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

The following is a schedule of activity for fiscal 2004 on the general obligation bonds:

	Balance July 1, 2003	Appreciation	Reductions	Balance June 30, 2004
Current interest bonds	\$ 18,495,000	\$ -	\$ (825,000)	\$ 17,670,000
Capital appreciation bonds	1,269,998	197,293	-	1,467,291
Total G.O. bonds	\$ 19,764,998	\$ 197,293	\$ (825,000)	\$ 19,137,291

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

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 665,000	\$ 862,341	\$ 1,527,341	\$ -	\$ -	\$ -
2006	-	848,209	848,209	220,732	474,268	695,000
2007	30,000	847,402	877,402	211,175	478,825	690,000
2008	30,000	845,790	875,790	198,078	491,922	690,000
2009	720,000	825,654	1,545,654	-	-	-
2010 - 2014	4,150,000	3,586,984	7,736,984	-	-	-
2015 - 2019	5,295,000	2,407,135	7,702,135	-	-	-
2020 - 2024	6,780,000	884,037	7,664,037	-	-	-
Total	\$ 17,670,000	\$ 11,107,552	\$ 28,777,552	\$ 629,985	\$ 1,445,015	\$ 2,075,000

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$13,250,645 (including available funds of \$945,213) and an unvoted debt margin of \$349,364.

NOTE 10 - COMPENSATED ABSENCES

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

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

<u>School Year</u>	<u>Severance Pay Percentage</u>	<u>Maximum Accrued Sick Leave Days</u>	<u>Maximum Severance Pay Days</u>
2003 - 04	25.33%	375	95
2004 - 05	24.62%	390	96
2005 - 06	23.95%	405	97
2006 - 07	23.33%	420	98
2007 - 08	22.76%	435	99
2008 - 09	22.22%	450	100

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the District contracted with Indiana Insurance Company for property insurance coverage in the blanket amount of \$48,495,711 with agreed amount, 100% coinsurance, replacement cost endorsement and a \$1,000 deductible. Boiler and machinery coverage is also provided with blanket coverage in the amount of \$48,495,711 with a \$1,000 deductible. The District inland marine coverage amount is \$993,000 for electronic data processing and \$481,850 for tractors, band uniforms, athletic equipment, musical instruments, audio/visual equipment and signs. The inland marine coverage has a \$500 deductible.

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

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

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

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

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

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

B. Employee Dishonesty Bonds

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

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

The District paid \$2,844 in administrative fees to the GRP for fiscal year 2004.

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

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

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical plan with a \$200 single and \$400 family deductible. Included in the plan is a prescription drug card with a \$10 per prescription copay for generic drugs, a \$20 per prescription copay for formulary drugs, and a \$30 per prescription copay for brand drugs. The medical and prescription drug card plan are administered by Medical Mutual of Ohio located in Cleveland, Ohio. The total monthly premium paid for the medical and prescription drug plan is \$360.61 for single coverage and \$973.70 for family coverage. The District portion of the monthly premium is \$324.73 for single coverage and \$871.85 for family coverage which is paid out of the same fund that pays the salary for the employee. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$35.88 for single coverage and \$101.85 for family coverage, which is withheld from their biweekly payroll.

The District provides dental coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$30.51 for single and \$82.39 for family coverage. The District's portion of the monthly premium is \$17.86 for single and \$53.28 for family coverage. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee monthly portion of the premium is \$12.65 for single and \$29.11 for family coverage, which is withheld from their biweekly payroll.

The District also provides vision coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$11.68 for single coverage and \$31.52 for family coverage. The District's portion of the monthly premium is \$6.16 for single coverage and \$18.04 for family coverage. This amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee monthly portion of the premium is \$5.52 for single coverage and \$13.48 for family coverage, which is withheld from their biweekly payroll.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 11 - RISK MANAGEMENT - (Continued)

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$242,592, \$249,984 and \$244,896 respectively; 50 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$121,296 represents the unpaid contributions for fiscal year 2004.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS – (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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, 2004, plan members were required to contribute 9.3 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 recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$861,912, \$777,888, and \$738,719 respectively; 83.33 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$143,652 represents the unpaid contributions for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$61,565 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$116,980 during the 2004 fiscal year.

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

- (a) Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

- (b) Expenditures and other uses 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	\$ 263,055
Net adjustment for revenue accruals	(198,041)
Net adjustment for expenditure accruals	(339,426)
Net adjustment for other sources/uses	15,123
Adjustment for encumbrances	<u>104,511</u>
GAAP basis	<u>\$ (154,778)</u>

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 a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 - CONTINGENCIES - (Continued)

C. State School Funding Decision

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

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

NOTE 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, 2004, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (423,585)	\$ -
Current year set-aside requirement	242,218	242,218
Qualifying disbursements	<u>(296,729)</u>	<u>(948,815)</u>
Total	<u>\$ (478,096)</u>	<u>\$ (706,597)</u>
Balance carried forward to FY 2005	<u>\$ (478,096)</u>	<u>\$ -</u>

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

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

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for school bus purchases	<u>\$ 33,377</u>
Total restricted assets	<u>\$ 33,377</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 17 - SIGNIFICANT SUBSEQUENT EVENTS

The Board of Education placed a \$2,285,000 5 year emergency levy on the August 3, 2004 ballot. That levy failed by a vote of 1,645 against and 524 for the levy. This was the first time for this new money levy to be placed on the ballot.

The Board of Education approved the same levy to be placed again on the November 2, 2004 ballot. It failed by a vote of 3,891 against and 2,273 for the levy. The Board of Education is considering placing the levy on the ballot in the future.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Ontario Local School District
Richland County
457 Shelby-Ontario Road
Mansfield, Ohio 44906-1029

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

However, we noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated November 18, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated November 18, 2004.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
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www.auditor.state.oh.us

Ontario Local School District
Richland County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 18, 2004



**Auditor of State
Betty Montgomery**

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800-282-0370

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**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 7, 2004**