



**Auditor of State
Betty Montgomery**

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

October 13, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$1,215,536. Net assets of governmental activities increased \$1,215,698, which represents a 14.36% increase from 2005. Net assets of business-type activities decreased \$162 or 0.78% from 2005.
- General revenues accounted for \$14,504,286 in revenue or 87.44% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,083,867 or 12.56% of total governmental activities revenues of \$16,588,153.
- The District had \$15,372,455 in expenses related to governmental activities; only \$2,083,867 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 \$14,504,286 were used to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$12,747,357 in revenues and \$12,154,405 in expenditures. The fund balance of the general fund increased from \$1,861,011 to \$2,448,048.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$12,351,686 in revenues and other financing sources and \$12,097,743 in expenditures and other financing uses. The fund balance of the debt service fund increased from \$1,145,705 to \$1,399,648.

Using this Financial Report

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

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

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* except for fiduciary funds using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

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

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 29-58 of this report.

The District as a Whole

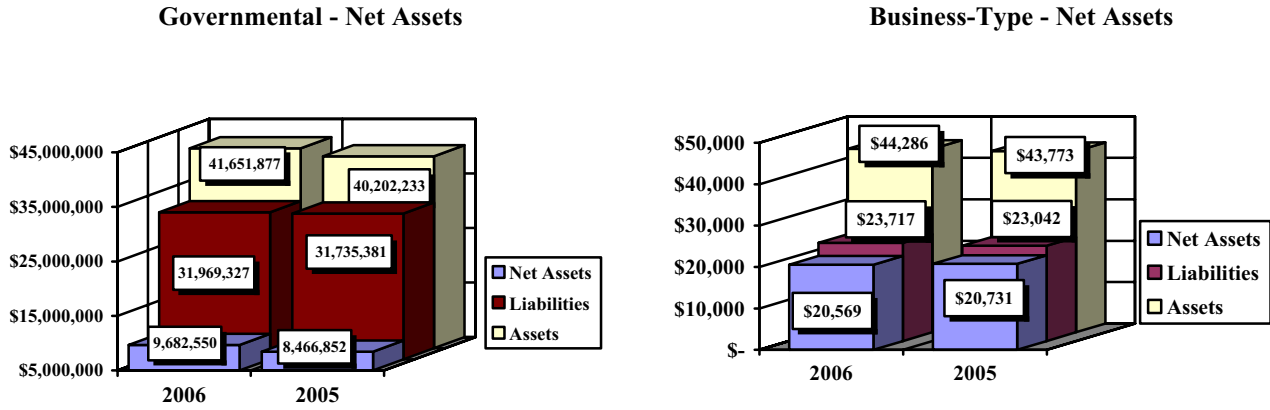
Recall that the Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets</u>						
Current assets	\$ 17,532,635	\$ 15,391,737	\$ 44,286	\$ 43,773	\$ 17,576,921	\$ 15,435,510
Capital assets, net	24,119,242	24,810,496	-	-	24,119,242	24,810,496
Total assets	<u>41,651,877</u>	<u>40,202,233</u>	<u>44,286</u>	<u>43,773</u>	<u>41,696,163</u>	<u>40,246,006</u>
<u>Liabilities</u>						
Current liabilities	12,407,617	11,685,107	12,409	11,708	12,420,026	11,696,815
Long-term liabilities	19,561,710	20,050,274	11,308	11,334	19,573,018	20,061,608
Total liabilities	<u>31,969,327</u>	<u>31,735,381</u>	<u>23,717</u>	<u>23,042</u>	<u>31,993,044</u>	<u>31,758,423</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	6,819,993	7,175,711	-	-	6,819,993	7,175,711
Restricted	2,075,945	1,542,632	-	-	2,075,945	1,542,632
Unrestricted	786,612	(251,491)	20,569	20,731	807,181	(230,760)
Total net assets	<u>\$ 9,682,550</u>	<u>\$ 8,466,852</u>	<u>\$ 20,569</u>	<u>\$ 20,731</u>	<u>\$ 9,703,119</u>	<u>\$ 8,487,583</u>

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

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

Total net assets increased by \$1,215,536 due primarily to a decrease in expenses.



The table below shows the changes in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services and sales	\$ 1,291,890	\$ 1,165,889	\$ 57,520	\$ 55,871	\$ 1,349,410	\$ 1,221,760
Operating grants and contributions	701,727	701,616	-	-	701,727	701,616
Capital grants and contributions	90,250	-	-	-	90,250	-
General revenues:						
Property taxes	11,346,087	11,594,396	-	-	11,346,087	11,594,396
Grants and entitlements not restricted	2,921,451	2,634,246	-	-	2,921,451	2,634,246
Investment earnings	223,009	106,988	-	-	223,009	106,988
Miscellaneous	13,739	9,689	-	-	13,739	9,689
Total revenues	16,588,153	16,212,824	57,520	55,871	16,645,673	16,268,695

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

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

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Expenses						
Program expenses:						
Instruction:						
Regular	\$ 6,023,491	\$ 6,211,551	\$ -	\$ -	\$ 6,023,491	\$ 6,211,551
Special	1,015,992	1,078,040	-	-	1,015,992	1,078,040
Vocational	272,750	281,246	-	-	272,750	281,246
Other	262,230	169,486	-	-	262,230	169,486
Support services:						
Pupil	636,435	707,322	-	-	636,435	707,322
Instructional staff	867,515	917,507	-	-	867,515	917,507
Board of education	42,757	36,975	-	-	42,757	36,975
Administration	1,139,364	1,138,126	-	-	1,139,364	1,138,126
Fiscal	506,627	475,777	-	-	506,627	475,777
Business	540	-	-	-	540	-
Operations and maintenance	1,687,243	1,648,895	-	-	1,687,243	1,648,895
Pupil transportation	771,188	982,010	-	-	771,188	982,010
Central	20,831	18,309	-	-	20,831	18,309
Operation of non-instructional services:						
Food service operations	667,234	680,325	-	-	667,234	680,325
Other non-instructional services	3,976	38,570	-	-	3,976	38,570
Extracurricular activities	597,868	657,018	-	-	597,868	657,018
Interest and fiscal charges	856,414	1,084,702	-	-	856,414	1,084,702
Preschool/latchkey	-	-	57,682	60,683	57,682	60,683
Total expenses	<u>15,372,455</u>	<u>16,125,859</u>	<u>57,682</u>	<u>60,683</u>	<u>15,430,137</u>	<u>16,186,542</u>
Changes in net assets	1,215,698	86,965	(162)	(4,812)	1,215,536	82,153
Net assets at beginning of year	<u>8,466,852</u>	<u>8,379,887</u>	<u>20,731</u>	<u>25,543</u>	<u>8,487,583</u>	<u>8,405,430</u>
Net assets at end of year	<u>\$ 9,682,550</u>	<u>\$ 8,466,852</u>	<u>\$ 20,569</u>	<u>\$ 20,731</u>	<u>\$ 9,703,119</u>	<u>\$ 8,487,583</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$1,215,698. Total governmental expenses of \$15,372,455 were offset by program revenues of \$2,083,867, and general revenues of \$14,504,286. Program revenues supported 13.56% of the total governmental expenses.

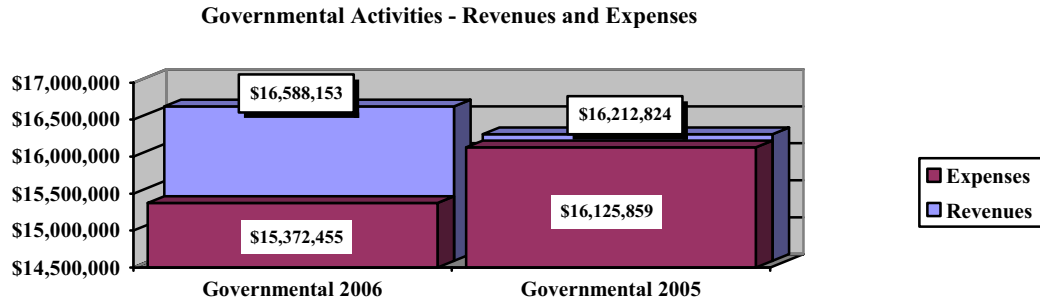
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These two revenue sources represent 86.01% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,574,463 or 49.27% of total governmental expenses for fiscal year 2006.

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

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

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



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2006 and 2005. 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>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses:				
Instruction:				
Regular	\$ 6,023,491	\$ 5,447,949	\$ 6,211,551	\$ 5,719,932
Special	1,015,992	707,291	1,078,040	766,311
Vocational	272,750	272,750	281,246	281,246
Other	262,230	262,230	169,486	169,486

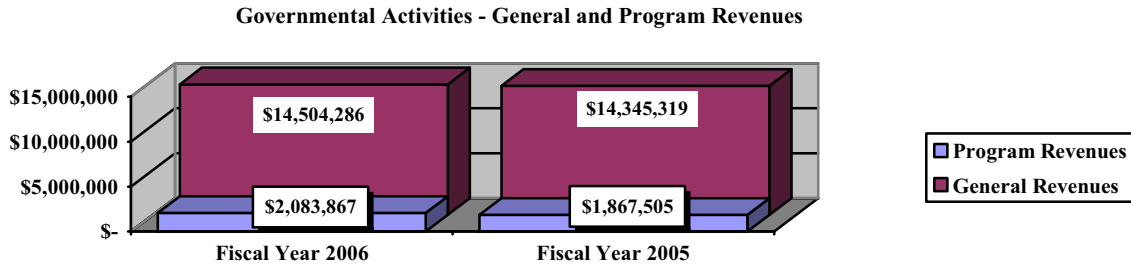
**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Support services:				
Pupil	\$ 636,435	\$ 558,042	\$ 707,322	\$ 627,712
Instructional staff	867,515	724,122	917,507	814,697
Board of education	42,757	42,757	36,975	36,975
Administration	1,139,364	1,139,364	1,138,126	1,138,126
Fiscal	506,627	506,627	475,777	475,777
Business	540	540	-	-
Operations and maintenance	1,687,243	1,647,517	1,648,895	1,618,946
Pupil transportation	771,188	768,196	982,010	982,010
Central	20,831	14,750	18,309	12,665
Operation of non-instructional services:				
Food service operations	667,234	47,109	680,325	69,126
Other non-instructional services	3,976	3,908	38,570	31,770
Extracurricular activities	597,868	289,022	657,018	428,873
Interest and fiscal charges	856,414	856,414	1,084,702	1,084,702
Total expenses	<u>\$ 15,372,455</u>	<u>\$ 13,288,588</u>	<u>\$ 16,125,859</u>	<u>\$ 14,258,354</u>

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 88.33% of 2006 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 2006 and 2005.



Business-Type Activities

Business-type activities include preschool/latchkey operations. These programs had revenues of \$57,520 and expenses of \$57,682 for fiscal year 2006. 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$4,416,902, which is above last year's total of \$3,301,175. The schedule on the next page indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance June 30, 2006</u>	<u>Fund Balance June 30, 2005</u>	<u>Increase</u>
General	\$ 2,448,048	\$ 1,861,011	\$ 587,037
Debt Service	1,399,648	1,145,705	253,943
Other Governmental	<u>569,206</u>	<u>294,459</u>	<u>274,747</u>
Total	<u>\$ 4,416,902</u>	<u>\$ 3,301,175</u>	<u>\$ 1,115,727</u>

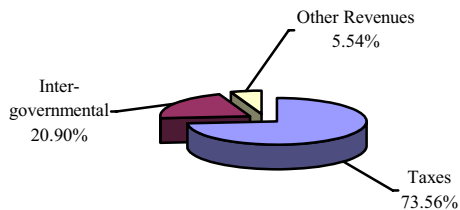
General Fund

The District's general fund balance increased \$587,037 during fiscal year 2006.

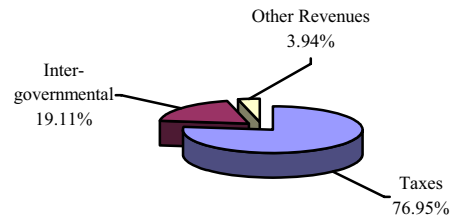
	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 9,376,729	\$ 9,795,062	(4.27) %
Intergovernmental	2,664,279	2,433,163	9.50 %
Other revenues	<u>706,349</u>	<u>502,054</u>	40.69 %
Total	<u>\$ 12,747,357</u>	<u>\$ 12,730,279</u>	0.13 %

Tax revenue decreased by \$418,333 or 4.27% from fiscal year 2005, primarily due to a decrease in the amount of property tax revenue available for advance from Richland County. Intergovernmental revenue increased \$231,116 or 9.50% from the prior year. This increase is attributed to an increase in the number of grants the District received in 2006. Other revenues increased \$204,295 partially due to an \$89,456 or 84.94% increase in earnings on investments. This is attributable to the increasing interest rates on the District's investments.

Revenues - Fiscal Year 2006



Revenues - Fiscal Year 2005



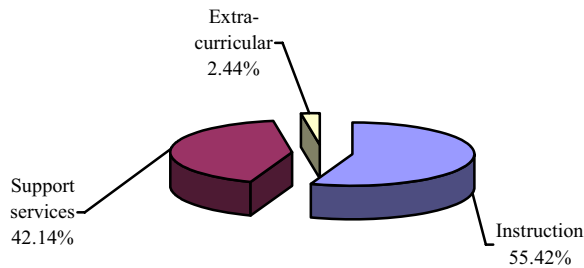
**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

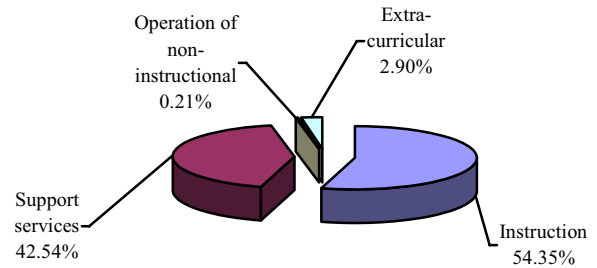
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
Instruction	\$ 6,735,596	\$ 6,832,840	(1.42) %
Support services	5,121,868	5,348,350	(4.23) %
Operation of non-instructional services	-	26,428	(100.00) %
Extracurricular activities	296,941	364,990	(18.64) %
Total	<u>\$ 12,154,405</u>	<u>\$ 12,572,608</u>	(3.33) %

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



Debt Service Fund

The District's other major governmental fund is the debt service fund. The debt service fund had \$12,351,686 in revenues and other financing sources and \$12,097,743 in expenditures and other financing uses. The fund balance of the debt service fund increased \$253,943 from \$1,145,705 to \$1,399,648.

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

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

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$363,685, above actual revenues and other financing sources of \$13,206,692. Of this difference, \$212,230 was due to tax estimates in the final budget. The original budgeted revenues and other financing sources were \$348,088 lower than the final budgeted revenues.

General fund final appropriations were \$12,583,718. The actual budget basis expenditures for fiscal year 2006 totaled \$12,272,934, which was \$310,784 less than the final budget appropriations. This occurred primarily because salary and benefit costs proved to be lower than anticipated in the original and final budget. There was very little change between the original and final budgeted appropriations. The final appropriations were \$9,784 higher than the original appropriations.

Capital Assets and Debt Administration

Capital Assets

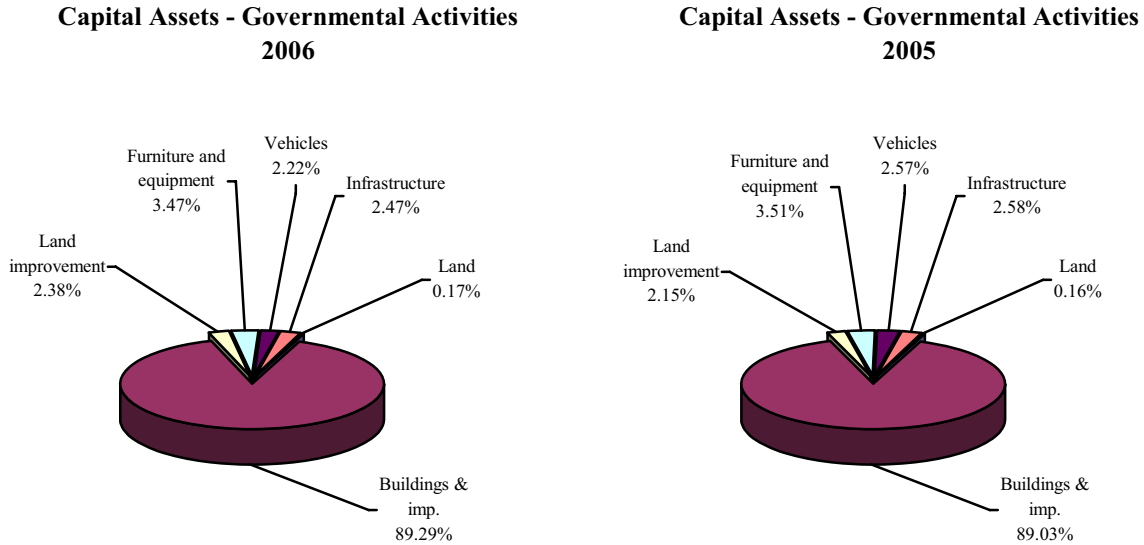
There are no capital assets reported in the business-type activities at June 30, 2006. At the end of fiscal year 2006, the District had \$24,119,242 invested in land, land/improvements, buildings/improvements, furniture/equipment, vehicles and infrastructure. The following table shows fiscal year 2006 balances compared to 2005:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 40,839	\$ 40,839
Land/improvements	573,415	534,467
Building/improvements	21,536,937	22,085,797
Furniture/equipment	838,074	870,894
Vehicles	535,295	637,847
Infrastructure	<u>594,682</u>	<u>640,652</u>
Total	<u>\$ 24,119,242</u>	<u>\$ 24,810,496</u>

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

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

The following graphs show the breakdown of governmental activities capital assets by category for 2006 and 2005.



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

Debt Administration

At June 30, 2006 the District had \$18,117,277 in general obligation bonds outstanding. The issue is comprised of current issue bonds and capital appreciation bonds. Of this total, \$306,175 is due within one year and \$17,811,102 is due in more than one year. The table that follows summarizes the bonds outstanding:

Outstanding Debt, at June 30

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
Current interest bonds	\$ 16,815,000	\$ 17,005,000
Capital appreciation bonds	<u>1,302,277</u>	<u>1,695,383</u>
Total	<u>\$ 18,117,277</u>	<u>\$ 18,700,383</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 2024. The District refunded \$10,000,000 of the current interest bonds during fiscal year 2006. The refunding bonds are comprised of both current interest bonds and capital appreciation bonds and are scheduled to mature in fiscal 2024. The annual interest rate on the current interest refunding bonds ranges from 3.50% to 4.75%.

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

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

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

At June 30, 2006, the District's voted legal debt margin was \$18,248,723 (including available funds of \$1,399,648) and an unvoted debt margin of \$388,515.

Current Financial Related Activities

The District's increase in net assets in fiscal year 2006 was primarily accomplished through increased parent fees and expenditure reductions. All employees received no increase in their base salary, and the number of employees was reduced by eight. (one administrator, two teachers, two bus drivers, one aide, and two cooks) Professional development, field trips, curriculum material purchases, and bus purchases were all eliminated. Parents were charged \$300 per athlete per varsity sport in order for their child to participate in extracurricular activities. These were temporary solutions to help the District avoid deficit spending and maintain financial stability. These cuts could not be continued without risking the academic success of the District.

The District passed a \$1,765,000, 3 year emergency levy on May 2, 2006. The proceeds of this levy will be collected in calendar year 2007. The passage of this levy has stabilized the financial condition of the District. The District will need to renew a 5 year, \$1,320,000 emergency levy during calendar year 2007. It is critical that this levy be renewed. If the levy is renewed, the District will be able to build cash reserves over the next couple of years.

Ontario Local School District was rated "Excellent" on the Ohio Department of Education fiscal year 2006 Report Card. The District is committed to structuring the academic programs and finances in order to maintain an excellent level of education.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Randall K. Harvey, Treasurer, Ontario Local School District, 457 Shelby-Ontario Road, Mansfield, Ohio 44906-1029.

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 5,373,244	\$ 44,286	\$ 5,417,530
Receivables:			
Taxes	11,856,924	-	11,856,924
Accounts	4,593	-	4,593
Intergovernmental	53,095	-	53,095
Accrued interest	38,688	-	38,688
Prepayments	39,622	-	39,622
Materials and supplies inventory	80,935	-	80,935
Unamortized bond issue costs	85,534	-	85,534
Capital assets:			
Land	40,839	-	40,839
Depreciable capital assets, net	<u>24,078,403</u>	<u>-</u>	<u>24,078,403</u>
Capital assets, net.	<u>24,119,242</u>	<u>-</u>	<u>24,119,242</u>
 Total assets.	 <u>41,651,877</u>	 <u>44,286</u>	 <u>41,696,163</u>
Liabilities:			
Accounts payable.	52,311	-	52,311
Accrued wages and benefits	1,344,987	6,302	1,351,289
Pension obligation payable.	369,524	1,486	371,010
Intergovernmental payable	63,701	197	63,898
Deferred revenue	10,518,774	4,424	10,523,198
Accrued interest payable	58,320	-	58,320
Long-term liabilities:			
Due within one year.	458,886	-	458,886
Due within more than one year	<u>19,102,824</u>	<u>11,308</u>	<u>19,114,132</u>
 Total liabilities	 <u>31,969,327</u>	 <u>23,717</u>	 <u>31,993,044</u>
Net Assets:			
Invested in capital assets, net of related debt.	6,819,993	-	6,819,993
Restricted for:			
Capital projects	473,647	-	473,647
Debt service.	1,471,870	-	1,471,870
Locally funded programs	1,750	-	1,750
State funded programs	162	-	162
Student activities	44,972	-	44,972
Public school support.	64,534	-	64,534
Other purposes	19,010	-	19,010
Unrestricted.	<u>786,612</u>	<u>20,569</u>	<u>807,181</u>
 Total net assets	 <u>\$ 9,682,550</u>	 <u>\$ 20,569</u>	 <u>\$ 9,703,119</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, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 6,023,491	\$ 529,796	\$ 45,746	\$ -
Special	1,015,992	2,041	306,660	-
Vocational	272,750	-	-	-
Other	262,230	-	-	-
Support services:				
Pupil	636,435	35,735	42,658	-
Instructional staff	867,515	23,300	120,093	-
Board of education	42,757	-	-	-
Administration	1,139,364	-	-	-
Fiscal	506,627	-	-	-
Business	540	-	-	-
Operations and maintenance	1,687,243	39,726	-	-
Pupil transportation	771,188	2,992	-	-
Central	20,831	-	6,081	-
Operation of non-instructional services:				
Food service operations	667,234	439,636	180,489	-
Other non-instructional services	3,976	68	-	-
Extracurricular activities	597,868	218,596	-	90,250
Interest and fiscal charges	856,414	-	-	-
Total governmental activities	<u>15,372,455</u>	<u>1,291,890</u>	<u>701,727</u>	<u>90,250</u>
Business-type activities:				
Preschool/latchkey	<u>57,682</u>	<u>57,520</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>57,682</u>	<u>57,520</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 15,430,137</u>	<u>\$ 1,349,410</u>	<u>\$ 701,727</u>	<u>\$ 90,250</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
\$ (5,447,949)	\$ -	\$ (5,447,949)
(707,291)	-	(707,291)
(272,750)	-	(272,750)
(262,230)	-	(262,230)
(558,042)	-	(558,042)
(724,122)	-	(724,122)
(42,757)	-	(42,757)
(1,139,364)	-	(1,139,364)
(506,627)	-	(506,627)
(540)	-	(540)
(1,647,517)	-	(1,647,517)
(768,196)	-	(768,196)
(14,750)	-	(14,750)
(47,109)	-	(47,109)
(3,908)	-	(3,908)
(289,022)	-	(289,022)
(856,414)	-	(856,414)
<u>(13,288,588)</u>	<u>-</u>	<u>(13,288,588)</u>
-	(162)	(162)
-	(162)	(162)
<u>(13,288,588)</u>	<u>(162)</u>	<u>(13,288,750)</u>
9,502,274	-	9,502,274
1,519,218	-	1,519,218
324,595	-	324,595
2,921,451	-	2,921,451
223,009	-	223,009
13,739	-	13,739
<u>14,504,286</u>	<u>-</u>	<u>14,504,286</u>
1,215,698	(162)	1,215,536
<u>8,466,852</u>	<u>20,731</u>	<u>8,487,583</u>
<u>\$ 9,682,550</u>	<u>\$ 20,569</u>	<u>\$ 9,703,119</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<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	\$ 3,423,064	\$ 1,300,572	\$ 630,598	\$ 5,354,234
Receivables:				
Taxes.	9,966,428	1,550,300	340,196	11,856,924
Accounts	2,113	-	2,480	4,593
Intergovernmental	4,331	-	48,764	53,095
Accrued interest	38,688	-	-	38,688
Prepayments.	39,622	-	-	39,622
Materials and supplies inventory	68,325	-	12,610	80,935
Restricted assets:				
Equity in pooled cash and cash equivalents	19,010	-	-	19,010
Total assets	<u>\$ 13,561,581</u>	<u>\$ 2,850,872</u>	<u>\$ 1,034,648</u>	<u>\$ 17,447,101</u>
Liabilities:				
Accounts payable	\$ 45,969	\$ -	\$ 6,342	\$ 52,311
Accrued wages and benefits	1,260,643	-	84,344	1,344,987
Compensated absences payable	105,733	-	-	105,733
Pension obligation payable.	333,717	-	35,807	369,524
Intergovernmental payable.	43,273	-	20,428	63,701
Deferred revenue.	9,324,198	1,451,224	318,521	11,093,943
Total liabilities	<u>11,113,533</u>	<u>1,451,224</u>	<u>465,442</u>	<u>13,030,199</u>
Fund Balances:				
Reserved for encumbrances	13,676	-	12,554	26,230
Reserved for materials and supplies inventory.	68,325	-	12,610	80,935
Reserved for prepayments	39,622	-	-	39,622
Reserved for property tax unavailable for appropriation	529,267	82,606	18,131	630,004
Reserved for debt service	-	1,317,042	-	1,317,042
Reserved for school bus purchases	19,010	-	-	19,010
Unreserved, undesignated, reported in:				
General fund	1,778,148	-	-	1,778,148
Special revenue funds.	-	-	94,714	94,714
Capital projects funds.	-	-	431,197	431,197
Total fund balances	<u>2,448,048</u>	<u>1,399,648</u>	<u>569,206</u>	<u>4,416,902</u>
Total liabilities and fund balances	<u>\$ 13,561,581</u>	<u>\$ 2,850,872</u>	<u>\$ 1,034,648</u>	<u>\$ 17,447,101</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, 2006

Total governmental fund balances		\$	4,416,902
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			24,119,242
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	550,812	
Accrued interest		24,357	
Total			575,169
Unamortized deferred charges are not recognized in the funds.			510,482
Unamortized premiums on bond issuance is not recognized in the funds.			(596,020)
Unamortized bond issuance costs are not recognized in the funds.			85,534
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(58,320)
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 payable		(1,253,162)	
General obligation bonds payable		(18,117,277)	
Total			(19,370,439)
Net assets of governmental activities		\$	9,682,550

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, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 9,376,729	\$ 1,502,844	\$ 320,591	\$ 11,200,164
Tuition.	194,955	-	-	194,955
Transportation.	1,908	-	-	1,908
Charges for services.	-	-	439,636	439,636
Earnings on investments.	194,772	-	3,880	198,652
Extracurricular.	-	-	222,865	222,865
Classroom materials and fees	261,258	-	35,099	296,357
Other local revenues.	53,456	-	186,702	240,158
Other revenue	-	-	960	960
Intergovernmental - State	2,663,558	225,597	59,409	2,948,564
Intergovernmental - Federal.	721	-	672,933	673,654
Total revenues	<u>12,747,357</u>	<u>1,728,441</u>	<u>1,942,075</u>	<u>16,417,873</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,510,039	-	138,884	5,648,923
Special.	701,594	-	313,574	1,015,168
Vocational.	261,733	-	-	261,733
Other	262,230	-	-	262,230
Support Services:				
Pupil.	534,234	-	75,734	609,968
Instructional staff	702,857	-	145,168	848,025
Board of education	42,757	-	-	42,757
Administration.	1,077,736	-	-	1,077,736
Fiscal	466,129	29,586	6,347	502,062
Business.	540	-	-	540
Operations and maintenance.	1,596,012	-	1,368	1,597,380
Pupil transportation	686,852	-	1,051	687,903
Central.	14,751	-	6,080	20,831
Operation of non-instructional services:				
Food service operations	-	-	600,556	600,556
Extracurricular activities.	296,941	-	230,983	527,924
Facilities acquisition and construction	-	-	150,157	150,157
Debt service:				
Principal retirement	-	810,000	-	810,000
Interest and fiscal charges	-	634,912	-	634,912
Bond issuance costs.	-	89,442	-	89,442
Total expenditures	<u>12,154,405</u>	<u>1,563,940</u>	<u>1,669,902</u>	<u>15,388,247</u>
Excess of revenues over expenditures.	<u>592,952</u>	<u>164,501</u>	<u>272,173</u>	<u>1,029,626</u>
Other financing sources (uses):				
Sale of bonds.	-	9,999,996	-	9,999,996
Premium on sale of refunding bonds	-	623,249	-	623,249
Payment to refunded bond escrow agent.	-	(10,533,803)	-	(10,533,803)
Total other financing sources (uses).	<u>-</u>	<u>89,442</u>	<u>-</u>	<u>89,442</u>
Net change in fund balances	592,952	253,943	272,173	1,119,068
Fund balances at beginning of year.	1,861,011	1,145,705	294,459	3,301,175
Increase (decrease) in reserve for inventory.	(5,915)	-	2,574	(3,341)
Fund balances at end of year	<u>\$ 2,448,048</u>	<u>\$ 1,399,648</u>	<u>\$ 569,206</u>	<u>\$ 4,416,902</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, 2006

Net change in fund balances - total governmental funds	\$	1,119,068
<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.		
Capital asset additions	\$161,088	
Current year depreciation	(852,342)	
Total		(691,254)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(3,341)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	145,923	
Accrued interest	24,357	
Total		170,280
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		10,810,000
Proceeds of refunding bonds are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement net assets.		
		(9,999,996)
Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		
		510,482
Premiums on debt issuances are recongnized as revenues in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		
		(596,020)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		
		85,534
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.		
Accrued interest	5,396	
Accreted interest	(226,898)	
Total		(221,502)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		32,447
Change in net assets of governmental activities	\$	1,215,698

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Final Budget Positive (Negative)</u>
Revenues:				
From local sources:				
Taxes	\$ 9,279,930	\$ 9,538,454	\$ 9,750,684	\$ 212,230
Tuition	226,335	232,640	284,774	52,134
Transportation	-	-	1,908	1,908
Earnings on investments	116,748	120,000	173,009	53,009
Classroom materials and fees	246,824	253,700	261,258	7,558
Other local revenues	30,207	31,049	53,019	21,970
Intergovernmental - State	2,578,673	2,650,511	2,662,312	11,801
Intergovernmental - Federal	-	-	2,380	2,380
Total revenue	<u>12,478,717</u>	<u>12,826,354</u>	<u>13,189,344</u>	<u>362,990</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,621,280	5,624,546	5,560,333	64,213
Special	804,583	805,337	710,749	94,588
Vocational	265,473	265,722	265,403	319
Other	261,523	261,768	262,122	(354)
Support services:				
Pupil	556,071	556,592	556,114	478
Instructional staff	675,946	676,580	661,657	14,923
Board of education	44,278	44,320	42,888	1,432
Administration	1,094,719	1,095,745	1,082,437	13,308
Fiscal	456,772	457,200	464,866	(7,666)
Operations and maintenance	1,721,738	1,723,352	1,636,471	86,881
Pupil transportation	738,269	738,961	711,855	27,106
Central	22,166	22,187	14,751	7,436
Extracurricular activities	311,116	311,408	303,288	8,120
Total expenditures	<u>12,573,934</u>	<u>12,583,718</u>	<u>12,272,934</u>	<u>310,784</u>
Excess of revenues over (under) expenditures	<u>(95,217)</u>	<u>242,636</u>	<u>916,410</u>	<u>673,774</u>
Other financing sources:				
Refund of prior year expenditure	16,202	16,653	17,322	669
Sale of capital assets	-	-	26	26
Total other financing sources	<u>16,202</u>	<u>16,653</u>	<u>17,348</u>	<u>695</u>
Net change in fund balance	(79,015)	259,289	933,758	674,469
Fund balance at beginning of year	2,409,017	2,409,017	2,409,017	-
Prior year encumbrances appropriated	49,880	49,880	49,880	-
Fund balance at end of year	<u>\$ 2,379,882</u>	<u>\$ 2,718,186</u>	<u>\$ 3,392,655</u>	<u>\$ 674,469</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>Nonmajor Enterprise Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 44,286
Total assets	<u>44,286</u>
Liabilities:	
Current liabilities:	
Accrued wages and benefits	6,302
Pension obligation payable.	1,486
Intergovernmental payable	197
Deferred revenue	<u>4,424</u>
Total current liabilities	<u>12,409</u>
Long-term liabilities:	
Compensated absences.	<u>11,308</u>
Total liabilities	<u>23,717</u>
Net assets:	
Unrestricted.	<u>20,569</u>
Total net assets	<u><u>\$ 20,569</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Nonmajor Enterprise Fund
Operating revenues:	
Tuition and fees	\$ 57,520
Total operating revenues	57,520
Operating expenses:	
Personal services	52,092
Purchased services	756
Materials and supplies	4,834
Total operating expenses	57,682
Change in net assets	(162)
Net assets at beginning of year	20,731
Net assets at end of year	\$ 20,569

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, 2006

		Nonmajor Enterprise Fund
Cash flows from operating activities:		
Cash received from tuition and fees.	\$	58,085
Cash payments for personal services		(51,982)
Cash payments for purchased services		(756)
Cash payments for materials and supplies.		(4,834)
		(4,834)
Net cash provided by operating activities		513
		513
Net increase in cash and cash equivalents		513
Cash and cash equivalents at beginning of year . . .		43,773
Cash and cash equivalents at end of year.	\$	44,286
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss.	\$	(162)
Changes in assets and liabilities:		
Increase in accrued wages and benefits		10
Increase in pension obligation payable		441
Decrease in intergovernmental payable.		(315)
Decrease in compensated absences payable		(26)
Increase in deferred revenue		565
		565
Net cash provided by operating activities.	\$	513

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Cash and cash equivalents in segregated account.	\$ 17,102	
Equity in pooled cash and cash equivalents	-	\$ 67,037
Receivables:		
Accounts	-	405
Total assets.	17,102	\$ 67,442
Liabilities:		
Intergovernmental payable	-	\$ 8,529
Due to students	-	58,913
Total liabilities	-	\$ 67,442
Net Assets:		
Held in trust for scholarships	17,102	
Total net assets	\$ 17,102	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 614
Total additions.	614
Deductions:	
Scholarships awarded	500
Change in net assets	114
Net assets at beginning of year.	16,988
Net assets at end of year	\$ 17,102

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, 2006

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 68 classified, 105 certificated full-time teaching personnel, and 9 administrators who provide services to 1,820 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has 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, 2006

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments (the "COG")

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

INSURANCE PURCHASING POOL

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

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

The Executive Director of the OASBO, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an 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 \$1,541 in administrative fees during fiscal year 2006.

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, 2006

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUND

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

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

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

The 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.

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

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

D. Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses/expenditures are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expenditure/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 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. 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.

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

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

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.

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

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

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2006.
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.

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

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

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

During fiscal year 2006, investments were limited to federal agency notes, certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio), U.S. government money market fund, repurchase agreements 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, 2006.

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 2006, interest revenue credited to the general fund amounted to \$194,772, which included \$70,500 assigned from other District funds.

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

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed/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.

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

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

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

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:

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

I. Unamortized Bond Issuance Cost/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as a separate line item on the Statement of Net Assets.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, bond issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 8. A.

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

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

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 the fund financial statements. 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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

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

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

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

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, debt service and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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. As of June 30, 2006, net assets restricted by enabling legislation were \$1,625,948 in the statement of net assets.

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.

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

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

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

P. 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 15 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.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2006, the District did not incur any transactions that would be classified as an extraordinary item or special item.

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

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

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

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

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

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Management Information System	\$ 446
Ohio Reads	10
Title VI - B	1,050
Title I	4,187
Title VI	10
Reducing Class Size	129

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,670,129. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$100,146 of the District's bank balance of \$1,795,036 was exposed to custodial risk as discussed below, while \$1,694,890 was covered by Federal Deposit Insurance Corporation.

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>Greater than 24 months</u>
FNMA	\$ 498,502	\$ 299,814	\$ 198,688	\$ -	\$ -
FHLB	1,491,447	498,499	-	597,189	395,759
U.S. Government Money Market	1,457,813	1,457,813	-	-	-
(Lincoln National Annuity) Mutual Fund	17,102	17,102	-	-	-
STAR Ohio	277,998	277,998	-	-	-
Repurchase Agreement	88,578	88,578	-	-	-
Total	\$ 3,831,440	\$ 2,639,804	\$ 198,688	\$ 597,189	\$ 395,759

The weighted average maturity of investments is .60 years.

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA	\$ 498,502	13.01
FHLB	1,491,447	38.92
U.S. Government Money Market	1,457,813	38.05
(Lincoln National Annuity) Mutual Fund	17,102	0.45
STAR Ohio	277,998	7.26
Repurchase Agreement	88,578	2.31
	<u>\$ 3,831,440</u>	<u>100.00</u>

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,670,129
Investments	3,831,440
Cash on hand	<u>100</u>
Total	<u>\$ 5,501,669</u>

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,373,244
Business-type activities	44,286
Private-purpose trust fund	17,102
Agency funds	<u>67,037</u>
Total	<u>\$ 5,501,669</u>

NOTE 5 - PROPERTY TAXES

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

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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.

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

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

NOTE 5 - PROPERTY TAXES – (Continued)

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, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$529,267 in the general fund, \$82,606 in the debt service fund, and \$18,131 in the capital projects fund. The amount available for advance at June 30, 2005 was \$771,714 in the general fund, \$127,816 in the debt service fund, and \$27,115 in the capital projects fund. The amount 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, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 270,673,150	76.00	\$ 301,107,610	77.50
Public utility personal	8,865,310	2.49	8,325,410	2.15
Tangible personal property	<u>76,587,843</u>	<u>21.51</u>	<u>79,082,000</u>	<u>20.35</u>
Total	<u>\$ 356,126,303</u>	<u>100.00</u>	<u>\$ 388,515,020</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation:

Operations	\$ 38.40	\$ 37.80
Debt service	4.70	4.30
Permanent improvement	1.00	1.00

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees) accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Taxes	\$ 11,856,924
Accounts	4,593
Intergovernmental	53,095
Accrued Interest	<u>38,688</u>
Total	<u>\$ 11,953,300</u>

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

NOTE 7 - CAPITAL ASSETS

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

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 40,839	\$ -	\$ -	\$ 40,839
<i>Capital assets, being depreciated:</i>				
Land/improvements	929,819	80,010	-	1,009,829
Building/improvements	27,636,868	-	-	27,636,868
Furniture/equipment	1,841,835	75,078	-	1,916,913
Vehicles	1,399,100	6,000	-	1,405,100
Infrastructure	<u>682,025</u>	<u>-</u>	<u>-</u>	<u>682,025</u>
Total capital assets, being depreciated	<u>32,489,647</u>	<u>161,088</u>	<u>-</u>	<u>32,650,735</u>
<i>Less: accumulated depreciation</i>				
Land/improvements	(395,352)	(41,062)	-	(436,414)
Building/improvements	(5,551,071)	(548,860)	-	(6,099,931)
Furniture/equipment	(970,941)	(107,898)	-	(1,078,839)
Vehicles	(761,253)	(108,552)	-	(869,805)
Infrastructure	<u>(41,373)</u>	<u>(45,970)</u>	<u>-</u>	<u>(87,343)</u>
Total accumulated depreciation	<u>(7,719,990)</u>	<u>(852,342)</u>	<u>-</u>	<u>(8,572,332)</u>
Governmental activities capital assets, net	<u>\$ 24,810,496</u>	<u>\$ (691,254)</u>	<u>\$ -</u>	<u>\$ 24,119,242</u>

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

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

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 363,116
Special	22,301
Vocational	10,316
 <u>Support Services:</u>	
Pupil	27,070
Instructional staff	66,518
Administration	14,428
Fiscal	2,579
Operations and maintenance	89,742
Pupil transportation	105,488
 <u>Operation of non-instructional services:</u>	
Other non-instructional services	3,976
Food service operations	67,955
Extracurricular activities	<u>78,853</u>
 Total depreciation expense	 <u><u>\$ 852,342</u></u>

NOTE 8 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2006</u>	Amount Due in <u>One Year</u>
General obligation bonds - 1999	\$ 18,700,383	\$ 207,430	\$ (10,695,000)	\$ 8,212,813	\$ 241,175
General obligation bonds - 2006	-	10,019,464	(115,000)	9,904,464	65,000
Compensated absences	<u>1,349,891</u>	<u>130,959</u>	<u>(121,955)</u>	<u>1,358,895</u>	<u>152,711</u>
Total	<u><u>\$ 20,050,274</u></u>	<u><u>\$ 10,357,853</u></u>	<u><u>\$ (10,931,955)</u></u>	19,476,172	<u><u>\$ 458,886</u></u>
Less: deferred charge on refunding				(510,482)	
Add: unamortized premium				<u>596,020</u>	
Total on statement of net assets				<u><u>\$ 19,561,710</u></u>	

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

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

NOTE 8 - LONG-TERM OBLIGATIONS – (Continued)

- 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 these bonds are recorded as an expenditure in the Debt Service Fund.

During fiscal year 2006, \$10,000,000 of the current interest bonds outstanding balance of \$17,005,000 was refunded. The capital appreciation bonds were not refunded.

The 1999 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 matured on December 1, 2005 (effective interest 16.30%), and the remaining capital appreciation bonds mature on 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, 2006, was \$1,207,813. A total of \$798,560 in accreted interest on the capital appreciation bonds has been included in the Statement of Net Assets at June 30, 2006.

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

The following is a schedule of activity for fiscal year 2006 on the series 1999 general obligation bonds:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Appreciation</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Current interest bonds	\$ 17,005,000	\$ -	\$ (10,000,000)	\$ 7,005,000
Capital appreciation bonds	<u>1,695,383</u>	<u>207,430</u>	<u>(695,000)</u>	<u>1,207,813</u>
Total G.O. bonds	<u>\$ 18,700,383</u>	<u>\$ 207,430</u>	<u>\$ (10,695,000)</u>	<u>\$ 8,212,813</u>

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

<u>Year Ended</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 30,000	\$ 342,990	\$ 372,990	\$ 211,175	\$ 478,825	\$ 690,000
2008	30,000	341,378	371,378	198,078	491,922	690,000
2009	720,000	321,242	1,041,242	-	-	-
2010	755,000	290,410	1,045,410	-	-	-
2011	790,000	254,226	1,044,226	-	-	-
2012 - 2016	4,225,000	644,764	4,869,764	-	-	-
2017 - 2021	260,000	89,225	349,225	-	-	-
2022 - 2024	<u>195,000</u>	<u>16,059</u>	<u>211,059</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,005,000</u>	<u>\$ 2,300,294</u>	<u>\$ 9,305,294</u>	<u>\$ 409,253</u>	<u>\$ 970,747</u>	<u>\$ 1,380,000</u>

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

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

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

- C. On September 6, 2005, the District issued general obligation bonds (fiscal year 2006 Refunding Bonds) to refund \$10,000,000 of the 1999 Current Interest General Obligation Bonds.

The refunding issue is comprised of both current interest bonds, par value \$9,925,000, and capital appreciation bonds, par value \$74,996. The capital appreciation bonds mature December 1, 2016 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$94,464. Total accreted interest of \$19,468 has been included in the statement of activities.

The following is a schedule of activity for fiscal 2006 on the fiscal year 2006 series refunding bonds:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Current interest bonds	\$ -	\$ 9,925,000	\$ (115,000)	\$ 9,810,000
Capital appreciation bonds	-	94,464	-	94,464
Total refunding bonds	<u>\$ -</u>	<u>\$ 10,019,464</u>	<u>\$ (115,000)</u>	<u>\$ 9,904,464</u>

The reacquisition price exceeded the net carrying amount of the old debt by \$533,803. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next eighteen years by 6.125% and resulted in an economic gain of \$852,000.

The following is a summary of the future debt service requirements to maturity for the fiscal year 2006 refunding bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 65,000	\$ 393,048	\$ 458,048	\$ -	\$ -	\$ -
2008	65,000	390,772	455,772	-	-	-
2009	70,000	388,411	458,411	-	-	-
2010	75,000	385,872	460,872	-	-	-
2011	75,000	383,154	458,154	-	-	-
2012 - 2016	765,000	1,861,337	2,626,337	-	-	-
2017 - 2021	4,675,000	1,377,787	6,052,787	74,996	1,030,004	1,105,000
2022 - 2024	4,020,000	247,343	4,267,343	-	-	-
Total	<u>\$ 9,810,000</u>	<u>\$ 5,427,724</u>	<u>\$ 15,237,724</u>	<u>\$ 74,996</u>	<u>\$ 1,030,004</u>	<u>\$ 1,105,000</u>

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

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

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$18,248,723 (including available funds of \$1,399,648) and an unvoted debt margin of \$388,515.

NOTE 9 - COMPENSATED ABSENCES

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

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

<u>School Year</u>	<u>Severance Pay Percentage</u>	<u>Maximum Accrued Sick Leave Days</u>	<u>Maximum Severance Pay Days</u>
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, 2006

NOTE 10 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Indiana Insurance Company for property insurance coverage in the blanket amount of \$52,640,237 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 \$52,640,237 with a \$1,000 deductible. The District inland marine coverage amount is \$1,294,183 for electronic data processing and \$497,400 for tractors, band uniforms, athletic equipment, musical instruments, audio/visual equipment and signs. The inland marine coverage has a \$500 deductible.

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

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

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

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

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

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

B. Employee Dishonesty Bonds

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

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

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

NOTE 10 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

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

The District paid \$1,856 in administrative fees to the GRP for fiscal year 2006.

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 \$379.39 for single coverage and \$1,024.44 for family coverage. The District portion of the monthly premium is \$343.51 for single coverage and \$922.59 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 \$27.84 for single and \$75.19 for family coverage. The District's portion of the monthly premium is \$15.88 for single and \$47.94 for family coverage. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee monthly portion of the premium is \$11.96 for single and \$27.25 for family coverage, which is withheld from their biweekly payroll.

The District also provides vision coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$9.39 for single coverage and \$25.34 for family coverage. The District's portion of the monthly premium is \$5.01 for single coverage and \$14.94 for family coverage. This amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee monthly portion of the premium is \$4.38 for single coverage and \$10.40 for family coverage, which is withheld from their biweekly payroll.

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

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

NOTE 10 - RISK MANAGEMENT - (Continued)

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

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

NOTE 11 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$165,552, \$218,110, and \$157,512; 41.59 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$96,698 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

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, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

NOTE 11 – DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$791,036, \$847,860 and \$800,347; 82.63 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$137,369 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$4,217 made by the District and \$9,823 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$60,849 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$79,547 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of projected claims less premium. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. SERS has 58,123 participants currently receiving health care benefits.

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

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

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 933,758
Net adjustment for revenue accruals	(441,987)
Net adjustment for expenditure accruals	93,532
Net adjustment for other sources	(17,348)
Adjustment for encumbrances	<u>24,997</u>
GAAP basis	<u>\$ 592,952</u>

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

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

NOTE 14 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

NOTE 15 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (530,667)	\$ -
Current year set-aside requirement	263,667	263,667
Qualifying disbursements	<u>(180,847)</u>	<u>(668,218)</u>
Total	<u>\$ (447,847)</u>	<u>\$ (404,551)</u>
Balance carried forward to FY 2007	<u>\$ (447,847)</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, 2006 follows:

Amount restricted for school bus purchases	<u>\$ 19,010</u>
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ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Education</u>						
<i>(Passed through the Ohio Department of Education)</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-2005	\$17,210		\$18,499	
		C1-S1-2006	126,282		124,657	
Total Title I Grants to Local Educational Agencies			143,492		143,156	
Special Education Cluster:						
Special Education_Grants to States	84.027	6B-SF-2005	42,441		64,460	
		6B-SF-2006	278,759		249,555	
Total Special Education Cluster			321,200		314,015	
Safe and Drug-Free Schools and Communities_State Grants	84.186	DR-S1-2006	6,830		6,830	
State Grants for Innovative Programs	84.298	C2-S1-2006	4,875		4,875	
Education Technology State Grants	84.318	TJ-S1-2006	2,606		2,606	
Improving Teacher Quality State Grants	84.367	TR-S1-2006	39,645		39,645	
Total U.S. Department of Education			518,648		511,127	
<u>U.S. Department of Health and Human Services</u>						
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	1,659		1,659	
Total U.S. Department of Health and Human Services			1,659		1,659	
<u>U.S. Department of Agriculture</u>						
<i>(Passed through the Ohio Department of Education)</i>						
Food Donation Program	10.550	N/A		\$79,745		\$79,745
Child Nutrition Cluster:						
National School Lunch Program	10.555	N/A	87,351		87,351	
Total U.S. Department of Agriculture			87,351	79,745	87,351	79,745
<u>U.S. Department of Homeland Security</u>						
<i>(Passed through the Ohio Department of Homeland Security)</i>						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-1580-OH	621		621	
Total U.S. Department of Homeland Security			621		621	
Totals			\$608,279	\$79,745	\$600,758	\$79,745

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

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION PROGRAM

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

NOTE C – CHILD NUTRITION CLUSTER

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated October 13, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated October 13, 2006, we reported an other matter related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

October 13, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Ontario Local School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

October 13, 2006

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010, Title I Grants to Local Educational Agencies; CFDA # 84.027, Special Education_Grants to States
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 21, 2006**