GENOA AREA LOCAL SCHOOL DISTRICT

OTTAWA COUNTY

Audit Report

For the Year Ended June 30, 2006

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants

Mary Taylor, CPA
Auditor of State

Board of Education
Genoa Area Local School District
2810 North Genoa-Clay Center Road
Genoa, Ohio 43430

We have reviewed the *Report of Independent Accountants* of the Genoa Area Local School District, Ottawa County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 26, 2007

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GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY
AUDIT REPORT
For the Year Ending June 30, 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

Genoa Area Local School District
Ottawa County
2810 North Genoa-Clay Center Road
Genoa, Ohio 43430

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 the Genoa Area Local School District, Ottawa 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 an opinion on these financial statements based on our audit.

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

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 the Genoa Area Local School District, Ottawa County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genoa Area Local School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
February 28, 2007

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

The management's discussion and analysis of the Genoa Area 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 the 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 $23,260. Net assets of governmental activities increased $44,285 which represents a 0.54% increase from 2005. Net assets of business-type activities decreased $21,025 or 27.10% from 2005.

- General revenues accounted for $11,166,444 in revenue or 90.30% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $1,199,200 or 9.70% of total revenues of $12,365,644.

- The District had $12,321,359 in expenses related to governmental activities; $1,199,200 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of $11,166,444 were adequate to provide for these programs.

- The District's major governmental funds are the general fund and the debt service fund. The general fund had $10,622,704 in revenues, and $10,560,319 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased $62,385 from $1,171,471to $1,233,856.

- The debt service fund had revenues and other financing sources of $3,840,167 and expenditures and other financing uses of $3,618,888. The debt service fund's fund balance increased $221,279 from $638,647 to $859,926.

- The District's only non-major enterprise fund is the food service fund. The food service fund had $550,692 in revenues and $571,717 in expenses. The food service fund net assets decreased $21,025 from $77,585 to $56,560.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

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:

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

<u>Business-Type Activities</u> - 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 food service operations are reported as business-type activities.

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Proprietary funds use 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 basic proprietary fund financial statements can be found on pages 22-25 of this report.

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 26. 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 27-54 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.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	$ 7,616,875	$ 6,684,029	$ (39,888)	$ (21,946)	$ 7,576,987	$ 6,662,083
Capital assets, net	11,989,295	12,366,858	121,174	124,724	12,110,469	12,491,582
Total assets	19,606,170	19,050,887	81,286	102,778	19,687,456	19,153,665
Liabilities						
Current liabilities	4,847,109	4,259,821	10,478	10,227	4,857,587	4,270,048
Long-term liabilities	6,581,390	6,657,680	14,248	14,966	6,595,638	6,672,646
Total liabilities	11,428,499	10,917,501	24,726	25,193	11,453,225	10,942,694
Net Assets						
Invested in capital assets, net of related debt	6,783,565	6,978,688	121,174	124,724	6,904,739	7,103,412
Restricted	1,292,924	1,003,551	-	-	1,292,924	1,003,551
Unrestricted (deficit)	101,182	151,147	(64,614)	(47,139)	36,568	104,008
Total net assets	$ 8,177,671	$ 8,133,386	$ 56,560	$ 77,585	$ 8,234,231	$ 8,210,971

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

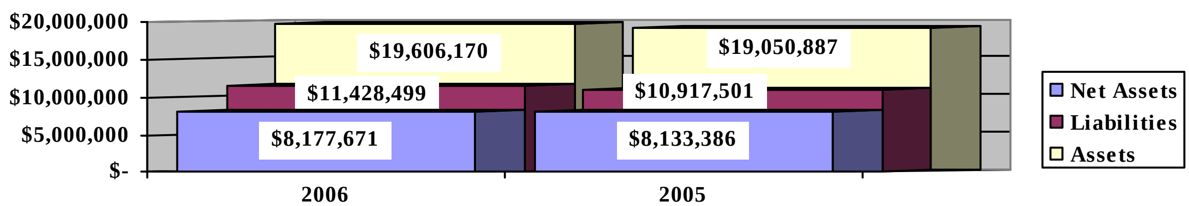
Total net assets of the District increased by $23,260, governmental activities net assets increased $44,285 and business-type activities net assets decreased $21,025.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by $8,234,231. Of this total, $8,177,671 is in governmental activities and $56,560 is in business-type activities.

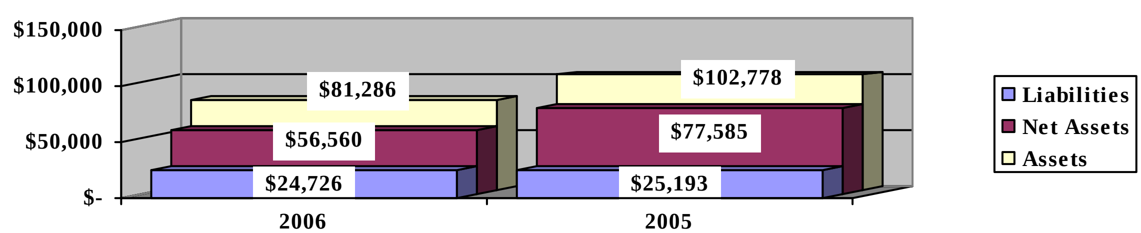
At fiscal year-end, capital assets represented 61.51% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were $6,783,565 in governmental activities and $121,174 in business-type activities. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, $1,292,924, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets in governmental activities of $101,182 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



Business-Type Activities



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

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Revenues						
Program revenues:						
Charges for services and sales	$ 535,233	$ 478,510	$ 390,193	$ 374,912	$ 925,426	$ 853,422
Operating grants and contributions	644,511	723,622	160,499	173,664	805,010	897,286
Capital grants and contributions	19,456	-	-	-	19,456	-
General revenues:						
Property taxes	4,561,434	4,253,527	-	-	4,561,434	4,253,527
Grants and entitlements	6,516,099	6,637,689	-	-	6,516,099	6,637,689
Investment earnings	72,177	40,738	-	-	72,177	40,738
Other	16,734	99,033	-	-	16,734	99,033
Total revenues	12,365,644	12,233,119	550,692	548,576	12,916,336	12,781,695
Expenses						
Program expenses:						
Instruction:						
Regular	$ 6,694,762	$ 6,545,434	$ -	$ -	$ 6,694,762	$ 6,545,434
Special	991,254	893,426	-	-	991,254	893,426
Vocational	-	41,768	-	-	-	41,768
Support services:						
Pupil	213,040	235,712	-	-	213,040	235,712
Instructional staff	379,313	389,691	-	-	379,313	389,691
Board of education	9,064	3,004	-	-	9,064	3,004
Administration	1,096,024	1,241,658	-	-	1,096,024	1,241,658
Fiscal	327,700	429,883	-	-	327,700	429,883
Business	19,874	18,569	-	-	19,874	18,569
Operations and maintenance	941,082	705,491	-	-	941,082	705,491
Pupil transportation	437,795	464,188	-	-	437,795	464,188
Central	370,509	449,523	-	-	370,509	449,523
Operations of non-instructional services:						
Non-instructional services	2,027	1,904	-	-	2,027	1,904
Extracurricular activities	577,744	539,967	-	-	577,744	539,967
Interest and fiscal charges	261,171	329,510	-	-	261,171	329,510
Food service operations	-	-	571,717	615,742	571,717	615,742
Total expenses	12,321,359	12,289,728	571,717	615,742	12,893,076	12,905,470
Change in net assets	44,285	(56,609)	(21,025)	(67,166)	23,260	(123,775)
Net assets at beginning of year	8,133,386	8,189,995	77,585	144,751	8,210,971	8,334,746
Net assets at end of year	$ 8,177,671	$ 8,133,386	$ 56,560	$ 77,585	$ 8,234,231	$ 8,210,971

Governmental Activities

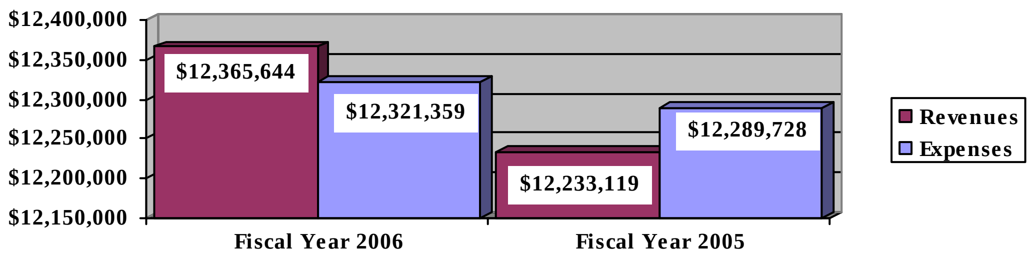
Net assets of the District's governmental activities increased $44,285. Total governmental expenses of $12,321,359 were offset by program revenues of $1,199,200 and general revenues of $11,166,444. Program revenues supported 9.73% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 89.58% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled $7,686,016 or 62.38% of total governmental expenses for fiscal 2006.

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

Governmental Activities - Revenues and Expenses



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

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

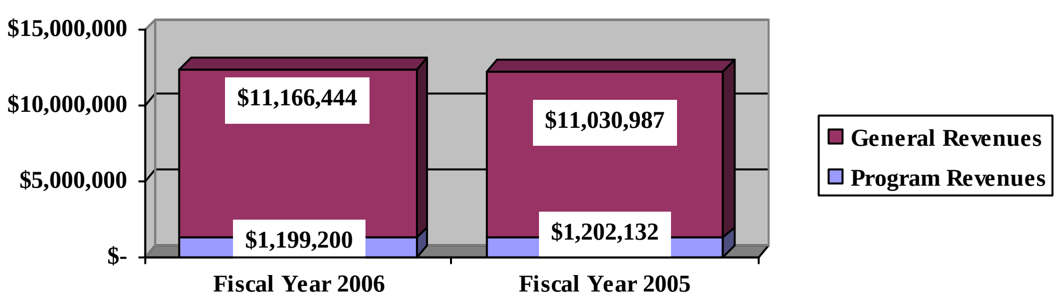
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	$ 6,694,762	$ 6,345,735	$ 6,545,434	$ 6,168,942
Special	991,254	598,071	893,426	586,305
Vocational	-	-	41,768	41,768
Support services:				
Pupil	213,040	200,063	235,712	209,960
Instructional staff	379,313	340,367	389,691	295,667
Board of education	9,064	9,064	3,004	3,004
Administration	1,096,024	1,029,052	1,241,658	1,169,368
Fiscal	327,700	324,245	429,883	426,497
Business	19,874	19,874	18,569	18,569
Operations and maintenance	941,082	921,687	705,491	692,363
Pupil transportation	437,795	419,254	464,188	446,012
Central	370,509	335,498	449,523	406,665
Operations of non-instructional services:				
Non-instructional services	2,027	2,027	1,904	1,904
Extracurricular activities	577,744	316,051	539,967	291,062
Interest and fiscal charges	261,171	261,171	329,510	329,510
Total expenses	$ 12,321,359	$ 11,122,159	$ 12,289,728	$ 11,087,596

The dependence upon tax and other general revenues for governmental activities is apparent, 90.34% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.27%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include the food service fund. This program had revenues of $550,692 and expenses of $571,717 for fiscal year 2006. The District's business activities receive no support from tax revenues.

The District's Funds

The District's governmental funds reported a combined fund balance of $2,475,606, which is higher than last year's total of $2,123,221. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase	Percentage Change
General	$ 1,233,856	$ 1,171,471	$ 62,385	5.33 %
Debt Service	859,926	638,647	221,279	34.65 %
Other Governmental	381,824	313,103	68,721	21.95 %
Total	$ 2,475,606	$ 2,123,221	$ 352,385	16.60 %

General Fund

The District's general fund balance increased $62,385. The increase in fund balance can be attributed to several items related to revenues being slightly higher than expenditures. Revenues exceed expenditures for fiscal year 2006 by $160,333. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2006 Amount	2005 Amount	Increase (Decrease)	Percentage Change
Revenues				
Taxes	$ 3,969,114	$ 3,544,243	$ 424,871	11.99 %
Earnings on investments	72,177	40,738	31,439	77.17 %
Extracurricular	186,451	199,864	(13,413)	(6.71) %
Intergovernmental	6,379,478	6,547,476	(167,998)	(2.57) %
Other revenues	15,484	3,125	12,359	395.49 %
Total	$ 10,622,704	$ 10,335,446	$ 287,258	2.78 %
Expenditures				
Instruction	$ 6,646,063	$ 6,695,942	$ (49,879)	(0.74) %
Support services	3,448,880	3,230,456	218,424	6.76 %
Non-instructional services	1,689	2,033	(344)	(16.92) %
Extracurricular activities	241,516	231,582	9,934	4.29 %
Debt service	124,223	124,223	-	- %
Total	$ 10,462,371	$ 10,284,236	$ 178,135	1.73 %

Debt Service Fund

The District's debt service fund balance increased $221,279. The increase in fund balance can be attributed to increases in property tax revenue.

General Fund Budgeting Highlights

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

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original appropriations and other financing uses were $10,679,194 and final appropriations and other financing uses were $10,864,799. Actual budget basis expenditures and other financing uses for fiscal 2006 was $10,856,663. This represents an $8,136 decrease from final appropriations.

General fund original budgeted revenues and other financing sources totaled $10,473,916. Final budgeted revenues and other financing sources for fiscal year 2006 totaled $10,609,301. Actual revenues and other financing sources for fiscal 2006 were $10,614,902, which is $5,601 higher than the final budget revenues.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had $12,110,469 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. See Note 8 to the basic financial statements for additional information. $11,989,295 is reported in governmental activities and $121,174 in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 341,835	$ 341,835	$ -	$ -	$ 341,835	$ 341,835
Land improvements	172,290	153,806	-	-	172,290	153,806
Building and improvements	10,181,492	10,493,500	-	-	10,181,492	10,493,500
Furniture and equipment	840,247	916,077	121,174	124,724	961,421	1,040,801
Vehicles	453,431	461,640	-	-	453,431	461,640
Total	$ 11,989,295	$ 12,366,858	$ 121,174	$ 124,724	$ 12,110,469	$ 12,491,582

The overall decrease in capital assets of $381,113 is primarily due to depreciation expense of $630,408 and disposals (net of accumulated depreciation) of $27,438 exceeding capital outlays of $276,733 in the fiscal year.

Debt Administration

At June 30, 2006, the District had $3,571,994 in general obligation bonds outstanding and $1,633,736 in capital lease obligations. Of this total, $352,081 is due within one year and $4,853,649 is due within greater than one year. See Note 10 to the basic financial statements for additional information. The following table summarizes the bonds and lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2006	Governmental Activities 2005
General obligation bonds	$ 3,571,994	$ 3,655,000
Capital lease obligations	1,633,736	1,733,170
Total	$ 5,205,730	$ 5,388,170

At June 30, 2006, the District's overall legal debt margin was $11,485,295, and an unvoted debt margin of $157,337.

Current Financial Related Activities

The District has carefully managed its General Fund, the principal operating fund of the District and the students that it serves, budgets. As the preceding information shows the District had General Fund cash balances of $1,585,313 in FY 2006, $1,786,132 in FY 2005, $1,865,060 in FY 2004, $2,594,630 in FY 2003, and $3,358,737 in FY 2002. The decline in cash balances in FY 2003 and FY 2004 were attributable to the decision of the Board not to seek renewal of a 5 mill Emergency levy. And, part of the decline in FY 2003 and FY 2004 was due to operating deficits in the fund. During that time frame the Board proposed to voters three levies to resolve the deficits. All three failed, the latter two by small margins. For that reason the Board took steps to reduce school operating expenses by $1,000,000. In FY 2004 the District's per pupil expense was $7,200. That is below State average and it is also below the average of the District's peer groups. Likewise, the District's grade card score on academic indicators are above the state's average and peer group average.

The Board's Five Year projections show that the District's General Fund Cash Balance becomes a negative in FY 2009 and drops below a safe reserve level the previous year. For that reason the Board anticipates proposing a new operating levy to the voters in the next fiscal year.

Several significant legislative and judicial actions have occurred that have and will have significant impact on the School District. The Ohio Supreme Court ruled in March 1997 that the State of Ohio was operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Subsequent decisions have left the question of school funding and constitutionality of same in a state of flux. In 2004 the Governor of the State of Ohio appointed a Blue Ribbon Task Force to develop and make recommendations to the school funding mechanism. The Committee has completed its work and is presently presenting their results to various groups including the legislature. At this time it would be optimistic to anticipate that any significant change can be expected in the near term future. At the present time the Legislature is in the process of developing and recommending the biennium budget for FY 06 and FY 07. Unfortunately, revenues appear to be less than will be needed to meet the various budget demands. This does not bode well for expecting any increases in school funding for the next two years. In examining the revenue shortfalls it can be expected that school funding could actually decline.

The District has maintained relatively steady enrollment over the past few years. Enrollment is critical since State funding formulas are based on enrollment. Part of this has been the use of Open Enrollment students, students who attend the District and are accompanied by their state funding, to manage its enrollment. Currently, the District has a net of 80 Open Enrollment students. The District expects enrollment to remain stable. And, expects to continue to use Open Enrollment to maintain a stable enrollment base.

Another challenge facing the District is its facilities. The District is an expedited partner of the Ohio Schools Facility Commission (OSFC). The District has submitted a plan to the OSFC and the plan has been approved. The plan calls for consolidating the two existing elementary schools into a new elementary school built on the Middle School/High School campus. And, build a new High School on an area immediately adjacent to the existing High School. The District's share of this cost is to be 42%. This will require a Bond Issue to fund the District's share. Under the current district rankings and the building schedule it is anticipated that the District will be eligible for funding in FY 2009 or 2010. The construction of these facilities is expected to reduce the operating expenses of the district by $300,000 to $400,000.

Certain outside factors have impacted past financial performance and are expected to continue to have an impact. These factors include:

Revenues

1. The State Legislature voted to phase out the inventory tax. The result along with other changes in the Personal Property Tax, see item 2, have resulted in flattening growth in these taxes.
2. In addition, the legislature eliminated the reimbursement of the Personal Property Tax exemption.
3. State Legislators reduced the Vocational Student reimbursement formula. This has lowered state support by $15,000 per year.
4. In addition they reduced the per pupil reimbursement growth formula from 2.8 to 2.1%. This has a negative revenue impact of $42,000 annually. More interesting is that it slows the per pupil dollar amount growth. If it remains the same we can expect a loss of more than $100,000 by FY 2009 from amounts promised.
5. Permanent cuts were made to non-foundation aid from the state. These equaled $75,000.
6. Interest rate declines and reduced cash position has resulted in significant reduction in investment revenues.
7. The Legislature initiated a fee for disbursing Rollback and Homestead taxes to the District. The cost to the District is $2,400.
8. The District made a decision not to renew a 5 mill Emergency Levy in 2002. This has resulted in an almost $500,000 decline in General Fund Revenue.

Expenditures

1. Health Insurance premiums increased by an average of 14% since 1998. It is expected that these will increase by 15% annually.
2. Special Education costs have increased by nearly 100% since 2000 to more than $1,200,000. These expenses represent 16% of the academic budget. Early forecast data shows no slow down in the growth of these expenses.
3. Liability Insurance costs increased by more than 300% from FY 2000. It is expected to grow on average by 7%. This is the result of fewer insurers offering coverage.
4. District salary costs have decreased due to a series of cuts made in FY 2003 and FY 2004. While some of the positions are expected to return upon passage of a levy a number are permanent.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. J. William Nye, Treasurer, Genoa Area Local School District, 2810 N. Genoa Clay Center Road, Genoa, Ohio 43430-9730.

BASIC
FINANCIAL STATEMENTS

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GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	$ 2,722,065	$ 2,736	$ 2,724,801
Cash with fiscal agent	730	-	730
Receivables:			
Taxes	4,670,714	-	4,670,714
Accounts	172	-	172
Note receivable	35,153	-	35,153
Prepayments	9,630	-	9,630
Materials and supplies inventory	28,671	10,063	38,734
Unamortized bond issue costs	97,053	-	97,053
Internal balance	52,687	(52,687)	-
Capital assets:			
Land	341,835	-	341,835
Depreciable capital assets, net	11,647,460	121,174	11,768,634
Capital assets, net	11,989,295	121,174	12,110,469
Total assets	19,606,170	81,286	19,687,456
Liabilities:			
Accounts payable	16,644	-	16,644
Accrued wages and benefits	673,466	8,963	682,429
Pension obligation payable	280,317	833	281,150
Intergovernmental payable	26,660	682	27,342
Deferred revenue	3,837,638	-	3,837,638
Accrued interest payable	12,384	-	12,384
Long-term liabilities:			
Due within one year	664,077	-	664,077
Due in more than one year	5,917,313	14,248	5,931,561
Total liabilities	11,428,499	24,726	11,453,225
Net Assets:			
Invested in capital assets, net of related debt	6,783,565	121,174	6,904,739
Restricted for:			
Capital projects	286,857	-	286,857
Debt service	852,679	-	852,679
State funded programs	11,928	-	11,928
Federally funded programs	730	-	730
Student Activites	77,244	-	77,244
Other purposes	63,486	-	63,486
Unrestricted (deficit)	101,182	(64,614)	36,568
Total net assets	$ 8,177,671	$ 56,560	$ 8,234,231

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	$ 6,694,762	$ 269,695	$ 59,876	$ 19,456
Special	991,254	-	393,183	-
Support services:				
Pupil	213,040	-	12,977	-
Instructional staff	379,313	-	38,946	-
Board of education	9,064	-	-	-
Administration	1,096,024	-	66,972	-
Fiscal	327,700	-	3,455	-
Business	19,874	-	-	-
Operations and maintenance	941,082	3,780	15,615	-
Pupil transportation	437,795	-	18,541	-
Central	370,509	65	34,946	-
Operation of non-instructional services:				
Non-instructional services	2,027	-	-	-
Extracurricular activities	577,744	261,693	-	-
Interest and fiscal charges	261,171	-	-	-
Total governmental activities	12,321,359	535,233	644,511	19,456
Business-type activities:				
Food service	571,717	390,193	160,499	-
Total business-type activities	571,717	390,193	160,499	-
Totals	$ 12,893,076	$ 925,426	$ 805,010	$ 19,456

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
$ (6,345,735)	$ -	$ (6,345,735)
(598,071)	-	(598,071)
(200,063)	-	(200,063)
(340,367)	-	(340,367)
(9,064)	-	(9,064)
(1,029,052)	-	(1,029,052)
(324,245)	-	(324,245)
(19,874)	-	(19,874)
(921,687)	-	(921,687)
(419,254)	-	(419,254)
(335,498)	-	(335,498)
(2,027)	-	(2,027)
(316,051)	-	(316,051)
(261,171)	-	(261,171)
(11,122,159)	-	(11,122,159)
-	(21,025)	(21,025)
-	(21,025)	(21,025)
(11,122,159)	(21,025)	(11,143,184)
3,893,778	-	3,893,778
390,759	-	390,759
276,897	-	276,897
6,516,099	-	6,516,099
72,177	-	72,177
16,734	-	16,734
11,166,444	-	11,166,444
44,285	(21,025)	23,260
8,133,386	77,585	8,210,971
$ 8,177,671	$ 56,560	$ 8,234,231

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash				
and cash equivalents	$ 1,540,460	$ 791,152	$ 345,600	$ 2,677,212
Cash with fiscal agent	-	-	730	730
Receivables:				
Taxes.	4,012,458	388,137	270,119	4,670,714
Accounts	172	-	-	172
Interfund receivable	52,687	-	-	52,687
Note receivable	-	-	35,153	35,153
Prepayments	9,630	-	-	9,630
Materials and supplies inventory	28,671	-	-	28,671
Restricted assets:				
Equity in pooled cash				
and cash equivalents	44,853	-	-	44,853
Total assets	$ 5,688,931	$ 1,179,289	$ 651,602	$ 7,519,822
Liabilities:				
Accounts payable	$ 9,781	$ -	$ 6,863	$ 16,644
Accrued wages and benefits	635,825	-	37,641	673,466
Compensated absences payable	136,777	-	-	136,777
Pension obligation payable.	280,317	-	-	280,317
Intergovernmental payable.	25,267	-	1,393	26,660
Deferred revenue.	3,367,108	319,363	223,881	3,910,352
Total liabilities	4,455,075	319,363	269,778	5,044,216
Fund Balances:				
Reserved for encumbrances	31,462	-	98,407	129,869
Reserved for materials and				
supplies inventory.	28,671	-	-	28,671
Reserved for prepayments	9,630	-	-	9,630
Reserved for property tax unavailable				
for appropriation	645,350	68,774	46,238	760,362
Reserved for debt service.	-	791,152	-	791,152
Reserved for budget stablization	44,853	-	-	44,853
Unreserved:				
Designated for budget stabilization.	420,290	-	-	420,290
Undesignated, reported in:				
General fund	53,600	-	-	53,600
Special revenue funds.	-	-	90,259	90,259
Capital projects funds.	-	-	146,920	146,920
Total fund balances	1,233,856	859,926	381,824	2,475,606
Total liabilities and fund balances	$ 5,688,931	$ 1,179,289	$ 651,602	$ 7,519,822

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

Total governmental fund balances		$ 2,475,606
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,989,295
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes		72,714
Unamortized bond issuance costs are not recognized in the funds		97,053
Unamortized premiums on bond issuance is not recognized in the funds.		(320,349)
Unamortized deferred charges are not recognized in the funds.		223,294
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(12,384)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	$ (1,141,828)	
Capital lease obligation	(1,633,736)	
General obligation bonds payable	(3,571,994)	
Total		(6,347,558)
Net assets of governmental activities		$ 8,177,671

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes	$ 3,969,114	$ 401,234	$ 284,110	$ 4,654,458
Tuition	-	-	1,250	1,250
Earnings on investments	72,177	-	-	72,177
Extracurricular	186,451	-	278,906	465,357
Other local revenues	15,484	-	69,896	85,380
Intergovernmental - State	6,379,478	44,846	303,465	6,727,789
Intergovernmental - Federal	-	-	452,257	452,257
Total revenues	10,622,704	446,080	1,389,884	12,458,668
Expenditures:				
Current:				
Instruction:				
Regular	6,155,199	-	143,454	6,298,653
Special	490,864	-	472,937	963,801
Support services:				
Pupil	200,072	-	12,968	213,040
Instructional staff	248,813	-	40,218	289,031
Board of education	9,064	-	-	9,064
Administration	1,069,532	-	69,831	1,139,363
Fiscal	338,267	-	8,770	347,037
Business	19,874	-	-	19,874
Operations and maintenance	846,265	-	138,861	985,126
Pupil transportation	399,143	-	18,542	417,685
Central	317,850	-	52,326	370,176
Operation of non-instructional services:				
Non-instructional services	1,689	-	-	1,689
Extracurricular activities	241,516	-	246,355	487,871
Facilities acquisition and construction	-	-	1,609	1,609
Capital outlay	-	-	115,576	115,576
Debt service:				
Principal retirement	60,755	85,000	154,255	300,010
Interest and fiscal charges	63,468	139,801	58,985	262,254
Bond issuance costs	-	98,186	-	98,186
Total expenditures	10,462,371	322,987	1,534,687	12,320,045
Excess of revenues over (under) expenditures	160,333	123,093	(144,803)	138,623
Other financing sources (uses):				
Transfers in	-	-	97,948	97,948
Transfers (out)	(97,948)	-	-	(97,948)
Sale of bonds	-	3,069,999	-	3,069,999
Premium on sale of bonds	-	324,088	-	324,088
Payment to refunded bond escrow	-	(3,295,901)	-	(3,295,901)
Capital lease transaction	-	-	115,576	115,576
Total other financing sources (uses)	(97,948)	98,186	213,524	213,762
Net change in fund balances	62,385	221,279	68,721	352,385
Fund balances at beginning of year	1,171,471	638,647	313,103	2,123,221
Fund balances at end of year	$ 1,233,856	$ 859,926	$ 381,824	$ 2,475,606

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA 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		$ 352,385
Amounts reported for governmental activities in the statement of activities are different because:		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital asset additions	$ 261,545	
Current year depreciation	(611,670)	
Total		(350,125)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(27,438)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(93,024)
Proceeds of refunding bonds are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement of net assets.		(3,069,999)
Payments ro refunding bond escrow agents are an other financing use in the governmental funds, but the payment reduces long-term liablities on the statement of net assets.		3,070,000
Premiums on refunding bonds are recognized as revenues in the governmental funds, however, they are amortized over the life of the isssuance on the statement of activities.		(320,349)
Bond issuance costs on refunding bonds are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		97,053
Deferred charges on refundings are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		223,294
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		300,010
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expenses when due. Additional interest is reported on the statement of activities due to the following items:		
Accrued interest	3,079	
Accreted interest on capital appreciation bonds	(1,995)	
Total		1,084
The issuance of capital leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(115,576)
Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		(23,030)
Change in net assets of governmental activities		$ 44,285

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type Activities - Nonmajor Enterprise Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	$ 2,736
Materials and supplies inventory	10,063
Total current assets	12,799
Noncurrent assets:	
Capital assets, net.	121,174
Total assets	133,973
Liabilities:	
Current liabilities:	
Accrued wages and benefits	8,963
Pension obligation payable.	833
Interfund loan payable.	52,687
Intergovernmental payable	682
Total current liabilities	63,165
Non-current liabilities:	
Compensated absences	14,248
Total liabilities	77,413
Net assets:	
Invested in capital assets	121,174
Unrestricted.	(64,614)
Total net assets	$ 56,560

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

	Business-Type Activities - Nonmajor Enterprise Fund
Operating revenues:	
Sales/charges for services	$ 390,193
Total operating revenues	390,193
Operating expenses:	
Personal services	279,166
Purchased services.	24,027
Materials and supplies.	249,786
Depreciation	18,738
Total operating expenses	571,717
Operating loss.	(181,524)
Nonoperating revenues:	
Federal donated commodities	51,326
Grants and subsidies	109,173
Total nonoperating revenues	160,499
Change in net assets.	(21,025)
Net assets at beginning of year	77,585
Net assets at end of year	$ 56,560

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities - Nonmajor Enterprise Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	$ 390,193
Cash payments for personal services.	(293,881)
Cash payments for contractual services	(9,779)
Cash payments for materials and supplies	(201,488)
Net cash used in operating activities	(114,955)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies	119,399
Cash received from interfund loans	13,001
Net cash provided by noncapital financing activities.	132,400
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(15,188)
Net cash used in capital and related financing activities.	(15,188)
Net increase in cash and cash equivalents.	2,257
Cash and cash equivalents at beginning of year	479
Cash and cash equivalents at end of year.	$ 2,736

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GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF CASH FLOWS
PROPRIETARY FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Business-Type Activities - Nonmajor Enterprise Fund
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(181,524)
Adjustments:		
Depreciation		18,738
Federal donated commodities		51,326
Changes in assets and liabilities:		
Increase in materials and supplies inventory		(3,028)
Decrease in accrued wages and benefits		(165)
Increase in intergovernmental payable		229
Decrease in compensated absences payable		(718)
Increase in pension obligation payable		187
Net cash used in operating activities	$	(114,955)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	$ 22,422
Total assets.	$ 22,422
Liabilities:	
Due to students	$ 22,422
Total liabilities	$ 22,422

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Genoa Area 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 is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 351st largest in the State of Ohio (among 615 public school districts) in terms of enrollment. It is staffed by 56 non-certificated employees and 98 certificated full-time teaching personnel who provide services to 1,531 students and other community members. The District currently operates 4 instructional buildings, 1 administrative building, 1 athletic complex and 1 bus garage.

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 enterprise fund provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activity and enterprise fund, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. 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". When applying GASB Statement No. 14 and No. 39, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's 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 debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The 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.

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association
The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among thirty-eight school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating school districts are limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Penta County Career Centers
The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District. Financial information is available from Carrie Herringshaw, Treasurer, 3009 S. Oregon Road, Perrysburg, Ohio 43551-4594.

INSURANCE PURCHASING POOLS

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

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

The San-Ott School Employees Welfare Benefit Association
The District participates in a shared risk pool, with participants from Sandusky and Ottawa counties. The Association is governed by an assembly which consists of one representative from each participant (usually the superintendent or designee). The assembly exercises control over the operation of the consortium. All consortium revenues are generated from charges for services. Financial information can be obtained by writing to San-Ott Consortium, Jay Valasek, Treasurer of Vanguard-Sentinel Vocational Schools, at 1306 Cedar Street, Fremont, Ohio 43420.

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

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus 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:

<u>General Fund</u> - 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.

<u>Debt Service Fund</u> - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

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 funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are 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. The following is the District's proprietary fund:

<u>Enterprise Funds</u> - The enterprise funds are 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 has one enterprise fund to account for food service operations. This enterprise fund is considered a nonmajor enterprise fund.

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 three classifications: 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 has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) they service the District's student activities, and do not involve measurement of results of operations.

C. Basis of Presentation and Measurement Focus

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

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds 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.

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

All proprietary funds 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 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense with a like amount 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 budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. By no later than January 20, the Board-adopted budget is filed with the Ottawa County Budget Commission for tax rate determination.

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

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

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, 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.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.

6. Any revisions that alter the legal level of budgetary control for a fund must be approved by the Board of Education.

7. 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.

8. 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 2006.

9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2006 amounted to $72,177 which includes $27,900 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, 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 fiscal year-end is provided in Note 4.

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

G. Inventory

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

On fund financial statements, inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories consist of donated food, purchased food, and non-food supplies held for resale and are expensed when used.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the enterprise 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. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of $300. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. 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. Interest incurred during the construction of capital assets is not capitalized.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land improvements	5 - 30 years	N/A
Buildings and improvements	8 - 50 years	N/A
Furniture/equipment	4 - 20 years	5 - 20 years
Vehicles	5 - 20 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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 who were within five years of becoming eligible to retire under STRS and SERS were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. 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, and all payables, accrued liabilities and long-term obligations payable from proprietary fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations 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 in the fund financial statements when due.

L. Unamoritized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are defined and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

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

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 refunds resulting in the defeasance of the 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, 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 10.A.

M. Fund Balance Reserves and Designations

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, material and supplies, prepayments, property taxes unavailable for appropriation, debt service and for budget stabilization. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. A fund balance designation is reported for amounts set-aside by the District for budget stabilization.

N. Net Assets

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

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the financial statements 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.

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

R. 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 sales for food service operations. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

S. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

T. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILTY 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".

NOTE 3 - ACCOUNTABILTY AND COMPLIANCE - (Continued)

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:

		Deficit	
Nonmajor Funds			
EMIS		$ 418	
Public Preschool		18	
Title VI-B		23,024	
Title I		15,499	

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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.

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the District had $150 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 $2,747,073. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, $2,399,906 of the District's bank balance of $2,979,626 was exposed to custodial risk as discussed below, while $579,720 was covered by Federal Deposit Insurance Corporation.

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

C. Cash with Fiscal Agent

At fiscal year-end, the District had a cash balance with the Ohio Mid-Eastern Regional Education Service Agency Self-funded Insurance Program (the "Program") of $730. The balance is covered by federal depository insurance or by collateral held by a qualified third-party trustee in the name of the Program's fiscal agent. This amount is not part of the internal cash pool and is reported on the financial statements as "Cash with Fiscal Agent".

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

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

Cash and Investments per footnote	
Carrying amount of deposits	$ 2,747,073
Cash on hand	150
Cash with fiscal agent	730
Total	$ 2,747,953
Cash and investments per Statement of Net Assets	
Governmental activities	$ 2,722,795
Enterprise	2,736
Agency	22,422
Total	$ 2,747,953

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund statement:

Receivable Fund		Payable Fund		Amount
General		Enterprise		$ 52,687

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

B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

			Amount
Transfers from general fund to:			
Nonmajor governmental funds			$ 97,948

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was $645,350 in the general fund, $68,774 in the debt service fund and $46,238 in the nonmajor governmental funds. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was $498,442 in the general fund, $62,875 in the debt service fund, and $42,161 in the nonmajor governmental funds.

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:

NOTE 6 - PROPERTY TAXES - (Continued)

	2005 Second Half Collections Amount	2005 Second Half Collections Percent	2006 First Half Collections Amount	2006 First Half Collections Percent
Agricultural/Residential and Other Real Estate	$ 141,050,170	89.38	$ 144,124,430	91.60
Public Utility Personal	6,537,440	4.14	5,855,010	3.72
Tangible Personal Property	10,229,838	6.48	7,357,995	4.68
Total	$ 157,817,448	100.00	$ 157,337,435	100.00
Tax rate per $1,000 of assessed valuation	$ 62.90		$ 66.80	

NOTE 7 - RECEIVABLES

A. Receivables at June 30, 2006 consisted of taxes, accounts and notes. 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 - current and delinquent	$ 4,670,714
Accounts	172
Notes	35,153
Total receivables	$ 4,706,039

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year, with the exception of the note receivable, see note 7.B.

B. The District sold the administrative building located in the Village of Clay Center to the Village of Clay Center for $73,500 on June 30, 2003. The Village made a down payment of $30,000 to the District and makes annual payments for the balance of $43,500 over ten years. As of June 30, 2006, the balance remaining on the note was $35,153, which is presented as a note receivable on the statement of net assets.

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

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

NOTE 8 - CAPITAL ASSETS

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

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 341,835	$ -	$ -	$ 341,835
Total capital assets, not being depreciated	341,835	-	-	341,835
Capital assets, being depreciated:				
Land improvements	474,093	27,770	-	501,863
Buildings and improvements	13,508,319	32,280	-	13,540,599
Furniture and equipment	2,857,269	143,350	(118,475)	2,882,144
Vehicles	1,283,861	58,145	(45,760)	1,296,246
Total capital assets, being depreciated	18,123,542	261,545	(164,235)	18,220,852
Less: accumulated depreciation				
Land improvements	(320,287)	(9,286)	-	(329,573)
Buildings and improvements	(3,014,819)	(344,288)	-	(3,359,107)
Furniture and equipment	(1,941,192)	(196,318)	95,613	(2,041,897)
Vehicles	(822,221)	(61,778)	41,184	(842,815)
Total accumulated depreciation	(6,098,519)	(611,670)	136,797	(6,573,392)
Governmental activities capital assets, net	$12,366,858	$ (350,125)	$ (27,438)	$11,989,295
Business-Type Activities				
Capital assets, being depreciated:				
Furniture and equipment	$ 319,222	$ 15,188	$ -	$ 334,410
Total capital assets being depreciated	319,222	15,188	-	334,410
Less: accumulated depreciation:				
Furniture and equipment	(194,498)	(18,738)	-	(213,236)
Total accumulated depreciation	(194,498)	(18,738)	-	(213,236)
Business-type activities capital assets, net	$ 124,724	$ (3,550)	$ -	$ 121,174

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		$ 298,058
Support Services:		
Instructional staff		59,188
Administration		49,566
Fiscal		3,671
Operations and maintenance		31,315
Pupil transportation		75,928
Extracurricular		93,944
Total depreciation expense		$ 611,670

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capital lease agreements for the acquisition of the District's central office, computer equipment, weight equipment, athletic complex, sign and a football stadium. During the current fiscal year, the District entered into a lease for computer equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of the District's central office, computer equipment, weight equipment, athletic complex and sign, football stadium have been capitalized and are included in the District's capital assets. The amounts capitalized represent the present value of the future minimum lease payments at the time of acquisition. The capitalized cost associated with the buildings and building improvements is $2,007,313 and furniture and equipment is $310,364. Accumulated depreciation at June 30, 2006 on the buildings and building improvements and equipment was $585,661 and $211,427, respectively, resulting in a carrying value of $1,421,652 and $98,937, respectively.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2006 fiscal year totaled $215,010 and $122,453, respectively. These amounts are reported as debt service payments of the general fund and nonmajor governmental funds.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

Year Ending June 30	Amount
2007	$ 294,452
2008	292,332
2009	250,374
2010	249,533
2011	247,457
2012 - 2016	803,246
2017	67,550
Total minimum lease payment	2,204,944
Less: amount representing interest	(571,208)
Present value of minimum lease payments	$ 1,633,736

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due in One Year
Governmental Activities:					
General obligation refunding bonds payable - Series 2006	$ -	$ 3,071,994	$ -	$ 3,071,994	$ 80,000
Compensated absences payable	1,269,510	252,594	(243,499)	1,278,605	311,996
General obligation bonds payable - Series 1999	3,655,000	-	(3,155,000)	500,000	90,000
Capital lease obligation	1,733,170	115,576	(215,010)	1,633,736	182,081
Total governmental activities long-term liabilities	$ 6,657,680	$ 3,440,164	$ (3,613,509)	6,484,335	$ 664,077
Add: unamortized premium				320,349	
Less: deferred amount on refunding				(223,294)	
				$ 6,581,390	

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due in One Year
Business-Type Activities:					
Compensated absences	$ 14,966	$ -	$ (718)	$ 14,248	$ -
Total business-type	$ 14,966	$ -	$ (718)	$ 14,248	$ -

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

Capital Lease Obligation: The capital lease obligation will be paid from the general fund and nonmajor governmental funds. See Note 9 for details.

General Obligation Bonds: On July 1, 1999, the District issued $3,959,000 in general obligation bonds (Series 2000, School Facilities Improvement Bonds), for the purpose of construction and renovation of school facilities. These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.15 (average) mill bonded permanent improvement tax levy.

During fiscal year 2006, $3,070,000 of these current interest bonds were refunded and the District paid $85,000 in principal during 2006.

The following is a schedule of activity for fiscal 2006 on the 1993 series general obligation bonds:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Current interest bonds	$ 3,655,000	$ -	$ (3,155,000)	$ 500,000

	Current Interest Bonds		
Year Ended	Principal	Interest	Total
2007	$ 90,000	$ 190,572	$ 280,572
2008	95,000	185,622	280,622
2009	100,000	180,397	280,397
2010	105,000	174,897	279,897
2011	110,000	169,122	279,122
			-
Total	$ 500,000	$ 900,610	$ 1,400,610

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. On March 29, 2006 the District issued general obligation bonds (Series 2006 Refunding Bonds) to advance refund the callable portion of the Series 1999 General Obligation Bonds (principal $3,070,000). The issuance proceeds of $3,069,999 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value $3,035,000, and capital appreciation bonds, par value $34,999. The capital appreciation bonds mature December 1, 2013, December 1, 2014 and December 1, 2015 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 $34,999. Total accreted interest of $1,995 has been included in the statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by $225,901. 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 nine years by 4.139% and resulted in an economic gain of $127,073.

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

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amount due in one year
Current interest bonds	$ -	$ 3,035,000	$ -	$ 3,035,000	$ 80,000
Capital appreciation bonds	-	36,994	-	36,994	-
Total refunding bonds	$ -	$ 3,071,994	$ -	$ 3,071,994	$ 80,000

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

	Current Interest Bonds			Capital Appreciation Bonds		
Year Ended	Principal	Interest	Total	Principal	Interest	Total
2007	$ 80,000	$ 162,090	$ 242,090	$ -	$ -	$ -
2008	40,000	159,317	199,317	-	-	-
2009	40,000	157,918	197,918	-	-	-
2010	45,000	161,517	206,517	-	-	-
2011	45,000	159,943	204,943	-	-	-
2012 - 2016	330,000	853,150	1,183,150	-	-	-
2017 - 2021	955,000	1,386,600	2,341,600	-	-	-
2022 - 2026	1,165,000	1,387,230	2,552,230	-	-	-
2027 - 2028	335,000	352,845	687,845	34,999	495,001	530,000
Total	$ 3,035,000	$ 4,780,610	$ 7,815,610	$ 34,999	$ 495,001	$ 530,000

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtness 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 $11,485,295 (including available funds of $859,926) and unvoted debt margin of $157,337.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn days of vacation depending upon contract. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave is accumulated to a maximum of 280 days for certified and administrative employees and 210 days for classified employees. Upon retirement, payment is made for thirty-five percent of total sick leave accumulation for certified and administrative employees to a maximum of eighty-five days and thirty-three percent of total sick leave accumulation got classified employees to a maximum of seventy days. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Group Health Insurance

The District has joined together with other school districts in the area to form the San-Ott Schools Employee Welfare Benefit Association, whose purpose is to provide health coverage and benefits to and for the eligible employees of Association members and their dependents. The District pays premiums to the Association based upon the benefits structure selected. The Association Trust Agreement provides that the Association will be self-sustaining through member premiums and will reinsure through commercial companies for specific claims in excess of $100,000 and aggregate claims in excess of 120 percent of expected claims.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive insurance coverage with private carriers for real property, building contents, general liability and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims have not exceeded the commercial coverage each of the past three years. There have been no significant reductions in insurance coverage from last year.

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Employee Group Health Insurance

The District participates with other school districts in the San-Ott Consortium (the Pool) in a jointly funded risk financing program administered by the Huntington Bank and Trust Company. The Pool includes nine member school districts and the Ottawa County Education Center. The program is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance, prescription drug insurance, dental insurance and vision insurance. Each member district has an option on the coverage it has elected for its employees. The District provides to its employees all available options offered by the Pool.

A third party, Group Health Care and Medical Mutual of Ohio headquartered in Toledo, Ohio, reviews all claims which are then paid by the Pool. As of June 30, 2006, the Pool has cash reserves of $1,836,900, which, in the opinion of San-Ott Consortium management, is adequate for any claims against the Pool.

During the fiscal year the District paid $882,245 into the Pool for coverage. These costs are paid by the fund that pays the salary for the covered employees. The Pool purchases insurance coverage for excess claims to limit the potential loss to its members. The amount of risk retained within the Pool is an annual aggregate limit of $100,000 per individual and claims exceeding that limit are covered by stop-loss insurance provided by a commercial insurer. The members, including the District, may be liable for any claims which exceed the Pool's assets and are less than the excess claims amount, which could be charged to members at a pro-rata share of the individual member's premium to the total Pool premiums. Financial information relating to the Pool may be obtained by writing to San-Ott Consortium, c/o Vanguard, 1306 Cedar Street, Fremont, OH 43420.

C. Worker's Compensation Plan

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. Participants in the Plan 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 Plan tier rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the Plan.

NOTE 13 - 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.

NOTE 13 - PENSION PLANS - (Continued)

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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were $124,488, $131,755, and $132,378, respectively; 72% has been contributed for 2006 and100% has been contributed for fiscal years 2005 and 2004; $89,833 represents the unpaid portion.

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.

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.

NOTE 13 - PENSION PLANS - (Continued)

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 pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were $784,747, $769,332, and $775,105, respectively; 84% has been contributed for 2006 and 100% has been contributed for fiscal years 2005 and 2004; $122,976 represents the unpaid portion. Contributions to the DC and Combined Plans for fiscal 2006 were $8,378 made by the District and $18,506 made by plan members.

C. Social Security System

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2006, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled $60,365 during fiscal 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion at June 30, 2005 (the latest information available). 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 had 115,395 eligible benefit recipients.

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

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

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 0.01 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 $60,762 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were $178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of $267.5 million, which is about 168 percent of next years projected net health care costs of $158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 16 - STATUTORY RESERVES

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

NOTE 16 - STATUTORY RESERVES - (Continued)

	Instructional Materials	Capital Maintenance	Budget Stabilization Reserved	Budget Stabilization Designated
Set-aside cash balance as of June 30, 2005	$ (79,585)	$ -	$ 44,853	$ 420,290
Current year set-aside requirement	236,871	236,871	-	-
Qualifying disbursements	(316,426)	(429,932)	-	-
Total	$ (159,140)	$ (193,061)	$ 44,853	$ 420,290
Balance carried forward to FY 2007	$ (159,140)	$ -	$ 44,853	$ 420,290

The District had offsets and qualifying disbursements during the year that reduced the instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

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

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

Amount restricted for budget stabilization	$ 44,853

NOTE 17 – CONTINGENCY

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based in the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately $18,966 per year. A portion of the refund may be recovered from additional State entitlement payments.

REQUIRED SUPPLEMENTARY INFORMATION

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA 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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From local sources:				
Taxes	$ 3,770,765	$ 3,820,163	$ 3,822,206	$ 2,043
Earnings on investments	71,206	72,138	72,177	39
Extracurricular	183,942	186,351	186,451	100
Other local revenues	15,106	15,304	15,312	8
Intergovernmental - State	6,293,619	6,376,067	6,379,478	3,411
Total revenues	10,334,638	10,470,023	10,475,624	5,601
Expenditures:				
Current:				
Instruction:				
Regular	6,440,378	6,553,912	6,548,936	4,976
Special	519,699	528,861	528,459	402
Vocational	1,668	1,697	1,696	1
Support services:				
Pupil	201,929	205,489	205,333	156
Instructional staff	249,092	253,484	253,291	193
Board of education	8,444	8,593	8,586	7
Administration	967,245	984,297	983,549	748
Fiscal	335,601	341,517	341,258	259
Business	19,545	19,889	19,874	15
Operations and maintenance	859,765	874,921	874,257	664
Pupil transportation	397,055	404,055	403,748	307
Central	282,314	287,291	287,073	218
Operation of non-instructional services	1,661	1,690	1,689	1
Extracurricular activities	244,163	248,468	248,279	189
Total expenditures	10,528,559	10,714,164	10,706,028	8,136
Excess of revenues over (under) expenditures	(193,921)	(244,141)	(230,404)	13,737
Other financing sources (uses):				
Refund of prior year expenditure	511	511	511	-
Transfers (out)	(97,948)	(97,948)	(97,948)	-
Advances in	138,767	138,767	138,767	-
Advances (out)	(52,687)	(52,687)	(52,687)	-
Total other financing sources (uses)	(11,357)	(11,357)	(11,357)	-
Net change in fund balance	(205,278)	(255,498)	(241,761)	13,737
Fund balance at beginning of year	1,749,287	1,749,287	1,749,287	-
Prior year encumbrances appropriated	36,845	36,845	36,845	-
Fund balance at end of year	$ 1,580,854	$ 1,530,634	$ 1,544,371	$ 13,737

- - continued

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The adjustments necessary to convert the changes in financial position/fund balance for the year on the budget basis to the GAAP basis for the general fund are as follows:

Net Change in Fund Balance

	General Fund
Budget basis	$ (241,761)
Net adjustment for revenue accruals	147,080
Net adjustment for expenditure accruals	202,715
Net adjustment for other sources/uses	(86,591)
Adjustment for encumbrances	40,942
GAAP basis	$ 62,385

GENOA AREA LOCAL SCHOOL DISTRICT
Ottawa County
Schedule of Federal Awards Expenditures
For the Year Ending June 30, 2006

Federal Grantor/Pass Through Grantor Number/Program Title	CFDA Number	Federal Receipts	Federal Expenditures
U.S. Department of Agriculture			
Pass through Ohio Department of Development			
Nutrition Cluster:			
National School Lunch Program	10.555	$ 112,543	$ 112,543
Breakfast Program	10.553	1,843	1,843
Total Nutrition Cluster		114,386	114,386
Food Distribution	10.550	51,325	51,325
Total U.S. Department of Agriculture		165,711	165,711
U.S. Department of Education			
Pass through Ohio Department of Education			
ESEA Title I, Part A, Title I Grants to Local Education Agencies			
Title I - Targeted Asst. FY 05	84.010	-	5,429
Title I - Targeted Asst. FY 06	84.010	103,156	170,367
Total Title I - Grants to Local Education Agencies		103,156	175,796
Title VI - B, Special Education - Assistance to States for Education of Handicapped Children			
Title VI - B - FY 05	84.027	-	362
Title VI - B - FY 06	84.027	327,648	327,648
Total Title VI - B		327,648	328,010
Drug - Free School Grant			
Drug - Free School Grant - FY04	84.186	3	-
Drug - Free School Grant - FY05	84.186	-	5
Drug - Free School Grant - FY06	84.186	5,919	5,919
Total Drug - Free School Grant		5,922	5,924
Innovative Education Program Strategies - FY06	84.298	4,490	4,490
Title II-D Technology - FY06	84.318	1,870	1,870
Title II-A Improv. Teacher Quality - FY06	84.367	55,062	55,062
Total U.S. Department of Education		498,148	571,152
Total Federal Expenditures		$ 663,859	$ 736,863

See accompanying Notes to the Schedule of Federal Awards Expenditures

GENOA AREA LOCAL SCHOOL DISTRICT
Ottawa County, Ohio
Notes to the Federal Awards Expenditure Schedule
For the Year Ended June 30, 2006

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2006, the District had immaterial food commodities in inventory.

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Certified Public Accountants
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Genoa Area Local School District
Ottawa County
2810 North Genoa-Clay Center Road
Genoa, Ohio 43430

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 the Genoa Area Local School District, Ottawa County (District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of 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 internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-GASD-01.

We also noted other matters involving compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated February 28, 2007.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
February 28, 2007

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Genoa Area Local School District
Ottawa County
2810 North Genoa-Clay Center Road
Genoa, Ohio 43430

To the Board of Education:

Compliance

We have audited the compliance of the Genoa Area Local School District, Ottawa County (District), with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the District 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 have a direct and material effect on a major federal program in order 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.*

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 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
February 28, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

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

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY

SCHEDULE OF FINDINGS
June 30, 2006

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

FINDING NUMBER 2006-GASD-01 Non-compliance Citation

Ohio Rev. Code Section 5705.41 (D) (1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

> **1. "Then and Now Certificates" – If the fiscal officer can certify that both at the time that contract or order was made ("then") and at the time that the fiscal officer was completing the certification ("now"), that sufficient funds were available or in the process of collection, to credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by resolution.**
>
> **Amounts of less than $3,000 may be paid by the fiscal officer without a resolution upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.**
>
> **2. Blanket Certificates - Fiscal officers may prepare "blanket" certificates for a certificates for a certain sum of money not in excess of an amount established by resolution adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.**
>
> **3. Super Blanket Certificates – The District may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.**

The District did not make the proper certification of funds in all instances. Fifteen of 60 selections tested during the audit period had the certifications after the obligation date. We recommend that the District institute the use of purchase orders for any expenditure to be made and certify expenditures prior to incurring the liability. In instances where prior certification is not practical, we recommend the issuance of a "Then and Now" certificate.

Management indicates that they will attempt to certify funds prior to the purchase.

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ending June 30, 2005, reported no material citations or recommendations.

Mary Taylor, CPA
Auditor of State

GENOA AREA LOCAL SCHOOL DISTRICT

OTTAWA 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
MAY 10, 2007