



**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

October 31, 2002

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ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
ASSETS:				
Equity in pooled cash and cash equivalents	\$ 2,462,159	\$ 93,790	\$ 516,285	\$ 263,884
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-	-
Cash with fiscal agent	-	-	-	-
Receivables (net of allowances of uncollectibles):				
Property taxes - current & delinquent	8,720,128	-	1,674,845	-
Accounts	706	1,324	-	-
Accrued interest	16,479	-	-	-
Interfund loan receivable	5,000	-	-	-
Due from other governments	44,071	1,440	-	-
Materials and supplies inventory	92,535	31	-	-
Prepayments	30,774	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-	-
OTHER DEBITS:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations.	-	-	-	-
Total assets and other debits	\$ 11,371,852	\$ 96,585	\$ 2,191,130	\$ 263,884
LIABILITIES, EQUITY AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 19,048	\$ -	\$ -	\$ -
Retainage payable	-	-	-	-
Accrued wages and benefits	1,126,792	9,002	-	-
Compensated absences payable	56,281	-	-	-
Pension obligation payable	228,068	2,237	-	-
Interfund loan payable	-	-	-	-
Deferred revenue	7,896,664	1,440	1,529,343	-
Due to other governments	18,120	4,437	-	-
Due to students	-	-	-	-
General obligation bonds payable	-	-	-	-
Total liabilities.	9,344,973	17,116	1,529,343	-
EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings: unreserved	-	-	-	-
Fund balances:				
Reserved for encumbrances	29,747	198	-	58,825
Reserved for materials and supplies inventory	92,535	31	-	-
Reserved for prepayments	30,774	-	-	-
Reserved for debt service	-	-	562,290	-
Reserved for tax revenue unavailable for appropriation.	512,701	-	99,497	-
Reserved for endowment principal	-	-	-	-
Unreserved-undesignated	1,361,122	79,240	-	205,059
Total equity and other credits	2,026,879	79,469	661,787	263,884
Total liabilities, equity and other credits	\$ 11,371,852	\$ 96,585	\$ 2,191,130	\$ 263,884

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$ 91,157	\$ 62,645	\$ -	\$ -	\$ 3,489,920
-	17,568	-	-	17,568
-	104,433	-	-	104,433
-	-	-	-	10,394,973
272	-	-	-	2,302
-	-	-	-	16,479
-	-	-	-	5,000
-	-	-	-	45,511
13,607	-	-	-	106,173
-	-	-	-	30,774
527,338	-	32,929,218	-	33,456,556
-	-	-	661,787	661,787
-	-	-	20,930,539	20,930,539
<u>\$ 632,374</u>	<u>\$ 184,646</u>	<u>\$ 32,929,218</u>	<u>\$ 21,592,326</u>	<u>\$ 69,262,015</u>
\$ -	\$ -	\$ -	\$ -	\$ 19,048
-	104,433	-	-	104,433
44,862	-	-	-	1,180,656
31,668	-	-	1,229,170	1,317,119
34,078	-	-	83,829	348,212
-	5,000	-	-	5,000
8,784	-	-	-	9,436,231
668	3,536	-	-	26,761
-	53,609	-	-	53,609
-	-	-	20,279,327	20,279,327
<u>120,060</u>	<u>166,578</u>	<u>-</u>	<u>21,592,326</u>	<u>32,770,396</u>
-	-	32,929,218	-	32,929,218
108,197	-	-	-	108,197
404,117	-	-	-	404,117
-	-	-	-	88,770
-	-	-	-	92,566
-	-	-	-	30,774
-	-	-	-	562,290
-	-	-	-	612,198
-	15,750	-	-	15,750
-	2,318	-	-	1,647,739
<u>512,314</u>	<u>18,068</u>	<u>32,929,218</u>	<u>-</u>	<u>36,491,619</u>
<u>\$ 632,374</u>	<u>\$ 184,646</u>	<u>\$ 32,929,218</u>	<u>\$ 21,592,326</u>	<u>\$ 69,262,015</u>

**ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
From local sources:						
Taxes	\$ 8,507,126	\$ -	\$ 1,656,583	\$ 46,148	\$ -	\$ 10,209,857
Tuition	105,586	-	-	-	-	105,586
Earnings on investments	159,858	1,178	-	6,588	-	167,624
Extracurricular	-	222,443	-	-	-	222,443
Other local revenues	116,796	115,358	-	65,098	500	297,752
Other revenue	-	3,013	-	-	-	3,013
Intergovernmental - State	2,412,413	39,253	159,909	-	-	2,611,575
Intergovernmental - Federal	392	156,003	-	-	-	156,395
Total revenue	11,302,171	537,248	1,816,492	117,834	500	13,774,245
Expenditures:						
Current:						
Instruction:						
Regular	5,150,544	93,702	-	10,018	-	5,254,264
Special	574,555	101,132	-	-	-	675,687
Vocational	229,409	-	-	-	-	229,409
Other	97,322	-	-	-	-	97,322
Support services:						
Pupil	517,199	62,138	-	-	-	579,337
Instructional staff	638,992	44,919	-	-	-	683,911
Board of Education	31,026	-	-	-	-	31,026
Administration	938,206	1,384	-	-	-	939,590
Fiscal	363,150	-	28,586	-	-	391,736
Operations and maintenance	1,408,119	858	-	-	-	1,408,977
Pupil transportation	744,758	12,653	-	-	-	757,411
Central	10,237	7,498	-	-	-	17,735
Community services	17,510	1,844	-	-	-	19,354
Extracurricular activities	324,936	213,585	-	-	-	538,521
Facilities acquisition and construction	163,351	-	-	61,960	-	225,311
Debt service:						
Principal retirement	-	-	640,000	-	-	640,000
Interest and fiscal charges	-	-	951,092	1,148	-	952,240
Total expenditures	11,209,314	539,713	1,619,678	73,126	-	13,441,831
Excess (deficiency) of revenues over (under) expenditures	92,857	(2,465)	196,814	44,708	500	332,414
Other financing sources:						
Proceeds from sale of fixed assets	-	-	-	586	-	586
Excess (deficiency) of revenues and other financing sources over (under) expenditures	92,857	(2,465)	196,814	45,294	500	333,000
Fund balances, July 1	1,937,671	81,948	464,973	218,590	-	2,703,182
Decrease in reserve for inventory	(3,649)	(14)	-	-	-	(3,663)
Fund balances, June 30	\$ 2,026,879	\$ 79,469	\$ 661,787	\$ 263,884	\$ 500	\$ 3,032,519

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 8,250,529	\$ 8,269,812	\$ 19,283	\$ -	\$ -	\$ -
Tuition	60,250	101,499	41,249	-	-	-
Earnings on investments	187,000	166,669	(20,331)	9,500	1,178	(8,322)
Extracurricular	-	-	-	211,350	222,410	11,060
Other local revenues	93,000	104,006	11,006	89,935	114,727	24,792
Other revenue	-	-	-	3,013	3,013	-
Intergovernmental - State	2,446,501	2,407,003	(39,498)	35,803	39,253	3,450
Intergovernmental - Federal	425	392	(33)	155,998	155,998	-
Total revenues	<u>11,037,705</u>	<u>11,049,381</u>	<u>11,676</u>	<u>505,599</u>	<u>536,579</u>	<u>30,980</u>
Expenditures:						
Current:						
Instruction:						
Regular	5,138,526	5,156,970	(18,444)	92,206	93,685	(1,479)
Special	861,712	603,738	257,974	112,087	105,985	6,102
Vocational	225,812	227,446	(1,634)	-	-	-
Other	114,000	97,322	16,678	-	-	-
Support services:						
Pupil	498,252	506,956	(8,704)	68,249	62,138	6,111
Instructional staff	638,697	646,905	(8,208)	49,375	43,503	5,872
Board of Education	27,848	32,202	(4,354)	-	-	-
Administration	980,152	969,922	10,230	4,000	1,384	2,616
Fiscal	376,789	362,163	14,626	-	-	-
Business	-	-	-	-	-	-
Operations and maintenance	1,455,435	1,436,658	18,777	-	858	(858)
Pupil transportation	799,715	739,639	60,076	14,629	13,506	1,123
Central	11,511	10,237	1,274	8,218	7,477	741
Community services	15,510	17,510	(2,000)	1,744	1,844	(100)
Extracurricular activities	330,820	324,299	6,521	217,435	214,090	3,345
Facilities acquisition and construction	164,203	163,351	852	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>11,638,982</u>	<u>11,295,318</u>	<u>343,664</u>	<u>567,943</u>	<u>544,470</u>	<u>23,473</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(601,277)</u>	<u>(245,937)</u>	<u>355,340</u>	<u>(62,344)</u>	<u>(7,891)</u>	<u>54,453</u>
Other financing sources (uses):						
Advances in	5,000	5,000	-	-	-	-
Intergovernmental pass-through	(8,757)	-	8,757	-	-	-
Proceeds from sale of fixed assets	1,000	-	(1,000)	-	-	-
Refund of prior year expenditure	-	1,762	1,762	-	-	-
Total other financing sources (uses)	<u>(2,757)</u>	<u>6,762</u>	<u>9,519</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(604,034)</u>	<u>(239,175)</u>	<u>364,859</u>	<u>(62,344)</u>	<u>(7,891)</u>	<u>54,453</u>
Fund balances, July 1	2,485,118	2,485,118	-	91,281	91,281	-
Prior year encumbrances appropriated	<u>168,646</u>	<u>168,646</u>	<u>-</u>	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Fund balances, June 30	<u>\$ 2,049,730</u>	<u>\$ 2,414,589</u>	<u>\$ 364,859</u>	<u>\$ 34,937</u>	<u>\$ 89,390</u>	<u>\$ 54,453</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ 1,666,155	\$ 1,663,524	\$ (2,631)	\$ -	\$ -	\$ -	\$ 9,916,684	\$ 9,933,336	\$ 16,652
-	-	-	-	-	-	60,250	101,499	41,249
-	-	-	3,500	6,588	3,088	200,000	174,435	(25,565)
-	-	-	-	-	-	211,350	222,410	11,060
-	-	-	19,000	65,108	46,108	201,935	283,841	81,906
-	-	-	-	-	-	3,013	3,013	-
157,277	159,909	2,632	-	-	-	2,639,581	2,606,165	(33,416)
-	-	-	-	-	-	156,423	156,390	(33)
<u>1,823,432</u>	<u>1,823,433</u>	<u>1</u>	<u>22,500</u>	<u>71,696</u>	<u>49,196</u>	<u>13,389,236</u>	<u>13,481,089</u>	<u>91,853</u>
-	-	-	10,018	10,018	-	5,240,750	5,260,673	(19,923)
-	-	-	-	-	-	973,799	709,723	264,076
-	-	-	-	-	-	225,812	227,446	(1,634)
-	-	-	-	-	-	114,000	97,322	16,678
-	-	-	-	-	-	566,501	569,094	(2,593)
-	-	-	-	-	-	688,072	690,408	(2,336)
-	-	-	-	-	-	27,848	32,202	(4,354)
-	-	-	-	-	-	984,152	971,306	12,846
29,400	28,233	1,167	-	-	-	406,189	390,396	15,793
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,455,435	1,437,516	17,919
-	-	-	-	-	-	814,344	753,145	61,199
-	-	-	-	-	-	19,729	17,714	2,015
-	-	-	-	-	-	17,254	19,354	(2,100)
-	-	-	-	-	-	548,255	538,389	9,866
-	-	-	553,218	490,483	62,735	717,421	653,834	63,587
685,000	685,000	-	-	-	-	685,000	685,000	-
952,240	952,240	-	-	-	-	952,240	952,240	-
<u>1,666,640</u>	<u>1,665,473</u>	<u>1,167</u>	<u>563,236</u>	<u>500,501</u>	<u>62,735</u>	<u>14,436,801</u>	<u>14,005,762</u>	<u>431,039</u>
<u>156,792</u>	<u>157,960</u>	<u>1,168</u>	<u>(540,736)</u>	<u>(428,805)</u>	<u>111,931</u>	<u>(1,047,565)</u>	<u>(524,673)</u>	<u>522,892</u>
-	-	-	-	-	-	5,000	5,000	-
-	-	-	-	-	-	(8,757)	-	8,757
-	-	-	1,000	586	(414)	2,000	586	(1,414)
-	-	-	-	-	-	-	1,762	1,762
-	-	-	<u>1,000</u>	<u>586</u>	<u>(414)</u>	<u>(1,757)</u>	<u>7,348</u>	<u>9,105</u>
156,792	157,960	1,168	(539,736)	(428,219)	111,517	(1,049,322)	(517,325)	531,997
358,325	358,325	-	188,259	188,259	-	3,122,983	3,122,983	-
-	-	-	445,019	445,019	-	619,665	619,665	-
<u>\$ 515,117</u>	<u>\$ 516,285</u>	<u>\$ 1,168</u>	<u>\$ 93,542</u>	<u>\$ 205,059</u>	<u>\$ 111,517</u>	<u>\$ 2,693,326</u>	<u>\$ 3,225,323</u>	<u>\$ 531,997</u>

ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Tuition and fees	\$ 71,208	\$ -	\$ -	\$ 71,208
Sales/charges for services	391,922	4,557	-	396,479
Investment earnings	-	-	904	904
Total operating revenues	463,130	4,557	904	468,591
Operating expenses:				
Personal services	328,253	-	-	328,253
Contract services	8,127	4,557	-	12,684
Materials and supplies	251,425	-	-	251,425
Depreciation	34,098	-	-	34,098
Total operating expenses	621,903	4,557	-	626,460
Operating income (loss)	(158,773)	-	904	(157,869)
Nonoperating revenues (expenses):				
Operating grants	72,566	-	-	72,566
Federal commodities	39,792	-	-	39,792
Interest revenue	1,360	-	-	1,360
Other nonoperating revenues	300	-	-	300
Other nonoperating expenses	(1,430)	-	-	(1,430)
Total nonoperating revenues (expenses)	112,588	-	-	112,588
Net income (loss) before capital contributions	(46,185)	-	904	(45,281)
Capital contributions	516,250	-	-	516,250
Net income	470,065	-	904	470,969
Accumulated deficit/fund balance, July 1	(65,948)	-	16,664	(49,284)
Retained earnings/fund balance, June 30	\$ 404,117	\$ -	\$ 17,568	\$ 421,685

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

ONTARIO LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 71,170	\$ -	\$ -	\$ 71,170
Cash received from sales/service charges	391,961	4,557	-	396,518
Cash payments for personal services	(322,175)	-	-	(322,175)
Cash payments for contract services	(8,127)	(4,557)	-	(12,684)
Cash payments for materials and supplies	(211,776)	-	-	(211,776)
Net cash used in operating activities	(78,947)	-	-	(78,947)
Cash flows from noncapital financing activities:				
Cash received from operating grants	87,893	-	-	87,893
Cash received from other nonoperating revenues	300	-	-	300
Net cash provided by noncapital financing activities	88,193	-	-	88,193
Cash flows from investing activities:				
Interest received	1,360	-	904	2,264
Net increase in cash and cash equivalents	10,606	-	904	11,510
Cash and cash equivalents at beginning of year	80,551	-	16,664	97,215
Cash and cash equivalents at end of year	\$ 91,157	\$ -	\$ 17,568	\$ 108,725
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	\$ (158,773)	\$ -	\$ 904	\$ (157,869)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Depreciation	34,098	-	-	34,098
Federal donated commodities	39,792	-	-	39,792
Interest reported as operating income	-	-	(904)	(904)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(5,283)	-	-	(5,283)
Decrease in accounts receivable	1	-	-	1
Decrease in accrued wages and benefits	(225)	-	-	(225)
Increase in compensated absences payable	309	-	-	309
Increase in pension obligation payable	5,326	-	-	5,326
Increase in deferred revenue	5,140	-	-	5,140
Increase in due to other governments	668	-	-	668
Net cash used in operating activities	\$ (78,947)	\$ -	\$ -	\$ (78,947)

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District operates under a locally-elected five-member Board of Education (Board) and provides educational services as authorized by state and/or federal agencies. The Board controls the District's four instructional/support facilities which are staffed by 75 classified, 101 certificated full-time teaching personnel, and 10 administrators who provide services to 1,728 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) 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 prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the general purpose financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

A. Reporting Entity - (Continued)

include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units. The following organizations are described due to their relationship to the District.

JOINT VENTURE WITHOUT EQUITY INTEREST

Heartland Council of Governments (the COG)

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

INSURANCE PURCHASING POOL

Ohio School Boards Association 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 School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

**ONTARIO LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

A. Reporting Entity - (Continued)

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

GROUP PURCHASING POOL

Metropolitan Educational Council (MEC)

The District is a member of the Metropolitan Educational Council (MEC) purchasing group. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs, and certain paper products. The MEC also provides a Self-Help Gas Program where members save significant amounts on natural gas purchases. The District paid MEC a total of \$658 in administrative fees and \$714 in additional assessments during fiscal year 2002.

B. Fund Accounting

The District uses funds and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. 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 are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

B. Fund Accounting - (Continued)

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds or trust funds).

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 are the District's proprietary fund types:

Enterprise Funds - 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.

**ONTARIO LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

B. Fund Accounting - (Continued)

Internal Service Fund - The internal service fund is used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund, a nonexpendable trust fund and agency funds. The expendable trust fund is accounted for in the same manner as governmental funds. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are presented on a budget basis, with note disclosure identifying items which would be subject to accrual for other fund types (see Note 3.B.).

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary or trust funds.

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, intergovernmental revenue, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2002, and which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue. In proprietary funds, unused donated commodities are reported as deferred revenue.

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

C. Measurement Focus/Basis of Accounting - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as revenue.

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

C. Measurement Focus/Basis of Accounting - (Continued)

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

D. Budgets

The District is required by state statute to adopt an annual appropriated budget for all funds. The specific timetable for fiscal year 2002 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer.

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

D. Budgets - (Continued)

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

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

5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002 in the following amounts:

	<u>Increase</u>
Special Revenue Funds	\$81,832
Enterprise Funds	8,200
Internal Service Fund	2,557
Agency Fund	20,000

The budget figures, as shown in the accompanying budgetary statements, represent the final appropriation amounts including all amendments and modifications.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

D. Budgets - (Continued)

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level, which is the legal level of control.

Encumbrance accounting is utilized by District funds during the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting. The District had no encumbrances outstanding for the enterprise funds at fiscal year-end.

E. Cash and Investments

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

During fiscal year 2002, investments were limited to federal agency notes, repurchase agreements, certificates of deposit, State Treasury Asset Reserve (STAR Ohio), and an open-ended mutual fund. Investments are reported at fair value, which is based on quoted market prices, with the following exceptions: nonparticipating investment contracts such as repurchase agreements and certificates of deposit are reported at cost and investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

E. Cash and Investments - (Continued)

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. During fiscal year 2002, interest revenue credited to the General Fund amounted to \$159,858, which included \$61,645 assigned from other District funds.

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

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets. Inventory in governmental funds consists of expendable supplies held for consumption.

**ONTARIO LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

F. Inventory - (Continued)

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale.

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Assets Account Group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture, fixtures and equipment	5 - 12

H. Compensated Absences

Compensated absences of the District consist of vacation leave, compensatory leave, and sick leave to the extent that payment 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.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

H. Compensated Absences - (Continued)

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 sick pay 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 have completed five years of service and will be likely to retire from the District.

For governmental funds, the District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The District also records a liability for accumulated unused compensatory time when earned. The District records a liability for accumulated sick leave in the period the employee attains five years of service. The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, compensated absences are expensed when earned, and the entire amount is reported as a fund liability.

The total liability for vacation, compensatory leave, and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

I. Contributions of Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at year-end. The District had contributions of capital of \$516,520 during fiscal 2002. Contributed capital in the enterprise funds at June 30, 2002, is \$108,197. This amount originated prior to GASB Statement No. 33.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. Fund Equity

Reserved fund balances indicate that a portion of fund equity is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, debt service, tax revenue unavailable for appropriation, and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriations under state statute.

L. Interfund Transactions

During the course of normal operations, the District may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The District had no transfers during fiscal year 2002.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

L. Interfund Transactions - (Continued)

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”. The District had short-term interfund loans receivable and payable at June 30, 2002.
4. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable or payable at June 30, 2002.

See Note 5 for an analysis of interfund transactions.

M. Estimates

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

N. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At fiscal year-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

O. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation, since interfund eliminations have not been made in the aggregation of this data.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2002 included the following fund deficits:

<u>Special Revenue Funds</u>	<u>Deficit Balances</u>
Ohio Reads	\$ 32
Title VI-B	873

These funds complied with Ohio state law which does not allow a cash deficit at year-end.

The deficit fund balances in the Ohio Reads and Title VI-B Special Revenue Funds are a result of accruing wage obligations in accordance with GAAP. These deficits will be eliminated by user charges and intergovernmental revenues not recognized at June 30.

B. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>ASSETS</u>	
Accounts receivable	\$605
<u>LIABILITIES</u>	
Accrued wages and benefits	574
Pension obligation payable	202
Accounts payable	518

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories:

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

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

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

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

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

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

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

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 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 rating classifications by at least two nationally recognized rating agencies.

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

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

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,760,928 and the bank balance was \$2,003,537. The bank balance includes non-negotiable certificates of deposit and a clearance account to service payroll. While the respective expenditures were recognized by the District, a bank balance of \$16,419 remained in this clearing account. Of the bank balance:

1. \$1,972,000 was covered by federal depository insurance; and
2. \$31,537 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Repurchase agreements	\$ -	\$73,846	\$ 73,846
Federal agency notes	<u>821,879</u>	<u>-</u>	821,879
Total	<u>\$821,879</u>	<u>\$73,846</u>	
Investment in STAR Ohio			937,600
Lincoln National Annuity			<u>17,568</u>
Total investments			<u>\$1,850,893</u>

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the Combined Balance Sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$3,611,921	\$ -
Investments of the cash		
Management pool:		
Federal agency notes	(821,879)	821,879
Mutual fund (Lincoln National Annuity)	(17,568)	17,568
Investment in STAR Ohio	(937,600)	937,600
Repurchase agreements	(73,846)	73,846
Cash on hand	<u>(100)</u>	<u>-</u>
GASB Statement No. 3	<u>\$1,760,928</u>	<u>\$1,850,893</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$5,000	\$ -
<u>Agency Fund</u>		
Student Managed Activity	-	<u>5,000</u>
Total	<u>\$5,000</u>	<u>\$5,000</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2001 taxes were collected was \$314,804,375. Agricultural/residential and public utility/minerals real estate represented 47.46% or \$149,419,100 of this total; Commercial & industrial real estate represented 26.47% or \$83,322,600 of this total; public utility tangible represented 3.02% or \$9,529,800 of this total; and general tangible property represented 23.05% or \$72,532,875 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$38.70 per \$1,000 of assessed valuation for operations, and \$5.70 per \$1,000 of assessed valuation for debt service.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

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.

The District receives property taxes from Richland County. The Richland County Treasurer collects property taxes on behalf of the District, and the Richland County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 2002.

Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$612,198 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002, consisted of taxes, accrued interest, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. 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 follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current and delinquent	\$8,720,128
Accounts	706
Accrued interest	16,479
Due from other governments	44,071
<u>Special Revenue Funds</u>	
Accounts	1,324
Due from other governments	1,440
<u>Debt Service Fund</u>	
Taxes - current and delinquent	1,674,845
<u>Enterprise Funds</u>	
Accounts	272

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 8 - FIXED ASSETS

A. General Fixed Assets

The General Fixed Assets Account Group has been restated as of July 1, 2001, due to a reappraisal of the District's capital assets during fiscal year 2002.

<u>Asset Category</u>	<u>Balance June 30, 2001</u>	<u>Restatement</u>	<u>Restated Balance July 1, 2001</u>
Land/improvements	\$ 145,644	\$ 687,418	\$ 833,062
Buildings/improvements	5,218,193	77,044	5,295,237
Furniture/equipment	1,497,565	948,323	2,445,888
Vehicles	1,293,810	(32,736)	1,261,074
Construction in progress	<u>23,143,378</u>	<u>-</u>	<u>23,143,378</u>
Totals	<u>\$31,298,590</u>	<u>\$1,680,049</u>	<u>\$32,978,639</u>

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	<u>Restated Balance July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2002</u>
Land/ improvements	\$ 833,062	\$ 3,039	\$ -	\$ 836,101
Buildings/improvements	5,295,237	22,857,279	-	28,152,516
Furniture/equipment	2,445,888	172,503	(2,346)	2,616,045
Vehicles	1,261,074	126,344	(62,862)	1,324,556
Construction in progress	<u>23,143,378</u>	<u>142,216</u>	<u>(23,285,594)</u>	<u>-</u>
Total	<u>\$32,978,639</u>	<u>\$23,301,381</u>	<u>\$(23,350,802)</u>	<u>\$32,929,218</u>

B. Proprietary Fixed Assets

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$564,049
Less: accumulated depreciation	<u>(36,711)</u>
Net fixed assets	<u>\$527,338</u>

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 1999, the District issued \$21,249,985 in general obligation bonds to provide funds for various District building projects. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the General Long-Term Obligations Account Group. Payments of principal and interest relating to this bond are recorded as an expenditure in the Debt Service Fund.

This issue is comprised of both current interest bonds, par value \$20,620,000, and capital appreciation bonds, par value \$629,985. The interest rates on the current interest bonds range from 4.05% to 5.375%. The capital appreciation bonds mature on December 1, 2005 (effective interest 16.30%), December 1, 2006 (effective interest 14.75%) and December 1, 2007 (effective interest 13.85%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value reported in the General Long-Term Obligations Account Group at June 30, 2002, was \$1,099,327. A total of \$469,342 in accreted interest on the capital appreciation bonds has been included in the General Long-Term Obligations Account Group at June 30, 2002.

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

The following is a schedule of activity for fiscal 2002 on the general obligation bonds:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Appreciation</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2002</u>
Current interest bonds	\$19,820,000	\$ -	\$(640,000)	\$19,180,000
Capital appreciation bonds	<u>629,985</u>	<u>469,342</u>	<u>-</u>	<u>1,099,327</u>
Total G.O. bonds	<u>\$20,449,985</u>	<u>\$469,342</u>	<u>\$(640,000)</u>	<u>\$20,279,327</u>

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 685,000	\$ 924,581	\$ 1,609,581	\$ -	\$ -	\$ -
2004	825,000	893,591	1,718,591	-	-	-
2005	665,000	862,341	1,527,341	-	-	-
2006	-	848,209	848,209	220,732	474,268	695,000
2007	30,000	847,402	877,402	211,175	478,825	690,000
2008 - 2012	3,120,000	3,947,958	7,067,958	198,078	491,922	690,000
2013 - 2017	4,800,000	2,922,027	7,722,027	-	-	-
2018 - 2022	6,140,000	1,534,475	7,674,475	-	-	-
2023 - 2024	2,915,000	148,140	3,063,140	-	-	-
Total	<u>\$19,180,000</u>	<u>\$12,928,725</u>	<u>\$32,108,725</u>	<u>\$629,985</u>	<u>\$1,445,015</u>	<u>\$2,075,000</u>

B. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	Balance July 1, 2001	Increase	Decrease	Balance June 30, 2002
Compensated absences	\$ 1,232,473	\$152,746	\$(156,049)	\$ 1,229,170
Pension obligation payable	75,617	83,829	(75,617)	83,829
General obligation bonds payable	<u>20,449,985</u>	<u>469,342</u>	<u>(640,000)</u>	<u>20,279,327</u>
Total	<u>\$21,758,075</u>	<u>\$705,917</u>	<u>\$(871,666)</u>	<u>\$21,592,326</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2002, are a voted debt margin of \$8,714,854 (including available funds of \$661,787) and an unvoted debt margin of \$314,804.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 10 - NOTES PAYABLE

During fiscal year 1994, the District issued energy conservation notes in accordance with H.B. 264. Proceeds were used to provide for energy improvements to various District buildings. Principal, interest and the unpaid balance related to these notes are recorded in the Permanent Improvement Capital Projects Fund. The following is a description of the District's general obligation notes outstanding as of June 30, 2002:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2001</u>	<u>Retired in 2002</u>	<u>Balance June 30, 2002</u>
Energy Conservation Notes	5.1%	Various	<u>\$45,000</u>	<u>\$(45,000)</u>	<u>\$ 0</u>

NOTE 11 - COMPENSATED ABSENCES

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

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

<u>School Year</u>	<u>Severance Pay Percentage</u>	<u>Maximum Accrued Sick Leave Days</u>	<u>Maximum Severance Pay Days</u>
2001 - 02	26.96%	345	93
2002 - 03	26.11%	360	94
2003 - 04	25.33%	375	95
2004 - 05	24.62%	390	96
2005 - 06	23.95%	405	97
2006 - 07	23.33%	420	98
2007 - 08	22.76%	435	99
2008 - 09	22.22%	450	100

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 11 - COMPENSATED ABSENCES (Continued)

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

NOTE 12 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the District contracted with Utica National Insurance Group for property insurance coverage in the blanket amount of \$55,474,054 with agreed amount, 90% coinsurance, replacement cost endorsement and a \$1,000 deductible. Boiler and machinery coverage is also provided with blanket coverage in the amount of \$55,474,054 with a \$1,000 deductible. The District also has inland marine floaters in the amount of \$496,884 with a \$100 deductible for coverage of electronic data processing equipment, and a \$250 deductible for audio visual equipment, tractors, musical instruments and uniforms.

Vehicles are covered by Nationwide Insurance Companies and hold a \$50 deductible for comprehensive and a \$100 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Utica National Insurance Group also provide general liability coverage with a \$1,000,000 single occurrence limit and no deductible. An umbrella liability coverage is provided above the previously stated base liability coverages for general and fleet liability in the amount of \$5,000,000 and \$10,000 deductible.

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

B. Employee Dishonesty Bonds

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

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Worker's Compensation

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

The District paid \$3,119 in administrative fees to the GRP for fiscal year 2002.

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

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

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

D. Employee Group Life, Medical, Dental, and Vision Insurance - (Continued)

The District has elected to provide a comprehensive medical benefits package to the employees through a fully-insured program. This package provides a comprehensive medical plan with a \$100 single and \$200 family deductible. Included in the plan is a prescription drug card with a \$10 per prescription deductible for generic drugs, \$20 per prescription deductible for formulary drugs, and a \$30 per prescription deductible for brand drugs. The medical plan and prescription drug card are administered by Medical Mutual of Ohio located in Cleveland, Ohio. The total monthly premium paid for the medical and prescription drug plan is \$312.98 for single coverage and \$744.13 for family coverage. The District's portion of the monthly premium is \$280.91 for single coverage and \$666.10 for family coverage which is paid out of the same fund that pays the salary for the employees. The District's amounts are capped by negotiated union contracts and cannot be increased except through negotiations. The employee monthly portion of the premium is \$32.07 for single coverage and \$78.03 for family coverage which is withheld from their biweekly payroll.

The District provides dental coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$28.21 for single and \$76.17 for family coverage. The District's portion of the monthly premium is \$15.79 for single and \$47.68 for family coverage. Like the medical premium, this amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee portion of the monthly premium is \$12.42 for single and \$28.49 for family coverage which is withheld from their biweekly payroll.

The District also provides vision coverage for its employees on a fully-insured basis through Medical Mutual of Ohio. The total monthly premium is \$11.66 for single coverage and \$31.48 for family coverage. The District's portion of the monthly premium is \$6.15 for single coverage and \$18.00 for family coverage. This amount is also capped by negotiated union contracts and cannot be raised except through negotiated agreement. The employee portion of the monthly premium is \$5.51 for single coverage and \$13.48 for family coverage which is withheld from their biweekly payroll.

**ONTARIO LOCAL SCHOOL DISTRICT
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

D. Employee Group Life, Medical, Dental, and Vision Insurance - (Continued)

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

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

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains three Enterprise funds to account for the operations of Food Service, Uniform School Supplies and Pre-School/Latch Key. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise funds of the District as of and for the year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Pre-School Latch Key</u>	<u>Total</u>
Operating revenue	\$ 391,922	\$10,823	\$60,385	\$ 463,130
Operating expenses before depreciation	526,641	10,648	50,516	587,805
Depreciation	34,070	-	28	34,098
Operating income/(loss)	(168,789)	175	9,841	(158,773)
Operating grants	72,566	-	-	72,566
Capital contributions	516,250	-	-	516,250
Net income	461,179	175	8,711	470,065
Net working capital	(3,373)	521	19,496	16,644
Total assets	603,778	521	28,075	632,374
Total liabilities	104,424	-	15,636	120,060
Total retained earnings	391,157	521	12,439	404,117
Contributed capital	108,197	-	-	108,197
Total fund equity	499,354	521	12,439	512,314

**ONTARIO LOCAL SCHOOL DISTRICT
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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute 14 percent for 2002; 5.46 percent was the portion to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution rates are not determined actuarially, but are established by the SERS Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$244,896, \$219,120, and \$215,191, respectively; 50.00 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$122,449, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the General Long-Term Obligations Account Group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System - (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$738,719, \$708,309, and \$676,006, respectively; 81.57 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$136,144, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$237,445 during fiscal 2002.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. 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 at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$175,030 during the 2002 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess/(Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses			
	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$(239,175)	\$(7,891)	\$157,960	\$(428,219)
Net adjustment for revenue accruals	252,790	669	(6,941)	46,138
Net adjustment for expenditure accruals	43,222	357	45,795	368,550
Net adjustment for other financing sources/(uses)	(6,762)	-	-	-
Encumbrances (budget basis)	<u>42,782</u>	<u>4,400</u>	<u>-</u>	<u>58,825</u>
GAAP basis	<u>\$ 92,857</u>	<u>\$(2,465)</u>	<u>\$196,814</u>	<u>\$ 45,294</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

NOTE 17 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is not currently a party to any significant legal proceedings.

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 17 - CONTINGENCIES - (Continued)

C. State School Funding Decision - (Continued)

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

As of the date of these financial statements, the District is unable to determine the effect, if any, this decision will have on its future state funding and on its financial operations.

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2002, the District had the following contractual commitments outstanding related to renovations and additions to the existing high school, new middle school, and upgraded athletic facilities. A summary of the primary contractual commitments follows.

	<u>Total Contract</u>	<u>Amount Paid</u>	<u>Remaining Commitment at June 30, 2002</u>
Black Box Construction	\$ 304,163	\$ 286,267	\$17,896
Steingass Mechanical	911,250	908,393	2,857
Marr Knapp & Crawfis Assoc.	<u>886,258</u>	<u>851,957</u>	<u>34,301</u>
Total	<u>\$2,101,671</u>	<u>\$2,046,617</u>	<u>\$55,054</u>

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

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 19 - 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, 2002, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2001	\$(207,523)	\$ 0	\$ 53,402
Current year set-aside requirement	209,786	209,786	0
Transfer of BWC portion of budget stabilization to unreserved General Fund	0	0	(53,402)
Qualifying disbursements	<u>(350,831)</u>	<u>(740,977)</u>	<u>0</u>
Total	<u>\$(348,568)</u>	<u>\$(531,191)</u>	<u>\$ 0</u>
Cash balance carried forward to FY 2003	<u>\$(348,568)</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

NOTE 20 - SIGNIFICANT SUBSEQUENT EVENT

The District sold the Bedford Elementary Building to the Ontario Free Methodist Church for \$300,000 on July 9, 2002.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

We have audited the financial statements of the Ontario Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated October 31, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

October 31, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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ONTARIO LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 10, 2002**