

GENOA AREA LOCAL SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditors' Report* of the Genoa Area Local School District, Ottawa County, prepared by Weber O'Brien, Ltd, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 30, 2006

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GENOA AREA LOCAL SCHOOL DISTRICT

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 14
Statement of Net Assets - Government Wide	15
Statement of Activities - Government Wide	16 - 17
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds To the Statement of Activities	21
Statement of Net Assets - Proprietary Fund	22
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	23
Statement of Cash Flows - Proprietary Fund	24 - 25
Statement of Fiduciary Net Assets - Fiduciary Funds	26
Notes to the Financial Statements	27 - 53
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	54 - 55
Schedule of Expenditures of Federal Awards (Cash Basis)	56
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	57 - 58
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with Circular OMB A-133	59 - 60
Schedule of Findings and Questioned Costs	61
Summary Schedule of Prior Audit Findings	62

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INDEPENDENT AUDITORS' REPORT

Board of Education
Genoa Area Local School District
2810 N. Genoa Clay Center Road
Genoa, OH 43430

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Genoa Area Local School District ("District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

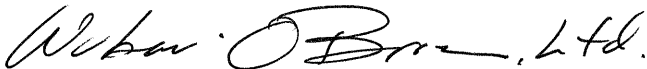
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Genoa Area Local School District as of June 30, 2005, and the respective changes in financial position and cash flow, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14 and budgetary comparison information on pages 54 and 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Genoa Area Local School District's basic financial statements. The accompanying schedule of expenditures of federal awards on page 56 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information, which is the responsibility of the District's management, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



March 6, 2006

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The management's discussion and analysis of the Genoa Area Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$123,775. Net assets of governmental activities decreased \$56,609 which represents a .7% decrease from 2004. Net assets of business-type activities decreased \$67,166 or 46.40% from 2004.
- General revenues accounted for \$11,030,987 in revenue or 90.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,202,132 or 9.83% of total revenues of \$12,233,119.
- The District had \$12,289,728 in expenses related to governmental activities; \$1,202,132 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,030,987 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$10,335,446 in revenues, and \$10,295,322 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased by \$40,124 from a restated amount of \$1,131,347 to \$1,171,471.
- The debt service fund had revenues of \$440,149 and expenditures of \$284,706. The debt service fund's fund balance increased \$155,443 from \$483,204 to \$638,647.
- The District's only nonmajor enterprise fund is the food service fund. The food service fund had \$548,576 in revenues and \$615,742 in expenses. The food service fund net assets decreased by \$67,166 from \$144,751 to \$77,585.

Using these Basic Financial Statements

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

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Assets</u>						
Current and other assets	\$ 6,684,029	\$ 6,463,941	\$ (21,946)	\$ 27,039	\$ 6,662,083	\$ 6,490,980
Capital assets, net	<u>12,366,858</u>	<u>12,590,484</u>	<u>124,724</u>	<u>142,524</u>	<u>12,491,582</u>	<u>12,733,008</u>
Total assets	<u>19,050,887</u>	<u>19,054,425</u>	<u>102,778</u>	<u>169,563</u>	<u>19,153,665</u>	<u>19,223,988</u>
<u>Liabilities</u>						
Current liabilities	4,259,821	4,273,109	10,227	10,748	4,270,048	4,283,857
Long-term liabilities	<u>6,657,680</u>	<u>6,591,321</u>	<u>14,966</u>	<u>14,064</u>	<u>6,672,646</u>	<u>6,605,385</u>
Total liabilities	<u>10,917,501</u>	<u>10,864,430</u>	<u>25,193</u>	<u>24,812</u>	<u>10,942,694</u>	<u>10,889,242</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	6,978,688	7,239,496	124,724	142,524	7,103,412	7,382,020
Restricted	1,003,551	631,773	-	-	1,003,551	631,773
Unrestricted (deficit)	<u>151,147</u>	<u>318,726</u>	<u>(47,139)</u>	<u>2,227</u>	<u>104,008</u>	<u>320,953</u>
Total net assets	<u>\$ 8,133,386</u>	<u>\$ 8,189,995</u>	<u>\$ 77,585</u>	<u>\$ 144,751</u>	<u>\$ 8,210,971</u>	<u>\$ 8,334,746</u>

Total net assets of the District decreased by \$123,775, governmental activities net assets decreased \$56,609 and business-type activities net assets decreased \$67,166.

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$8,210,971. Of this total, \$8,133,386 is in governmental activities and \$77,585 is in business-type activities.

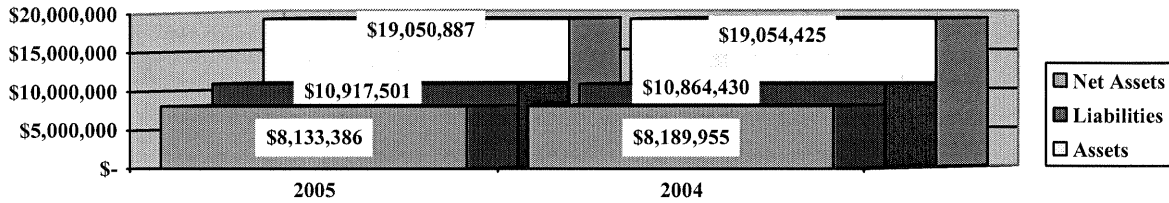
**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

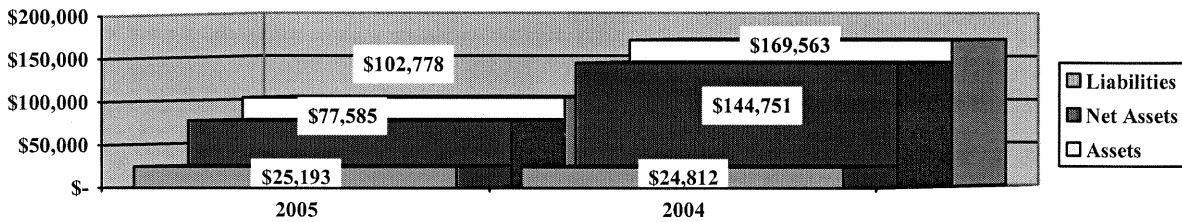
At fiscal year-end, capital assets represented 65.21% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$6,978,688 in governmental activities and \$124,724 in business-type activities. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,003,551, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets in governmental activities of \$151,147 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



Business-Type Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Change in Net Assets

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Revenues</u>						
Program revenues:						
Charges for services and sales	\$ 478,510	\$ 272,299	\$ 374,912	\$ 370,996	\$ 853,422	\$ 643,295
Operating grants and contributions	723,622	646,328	173,664	176,192	897,286	822,520
Capital grants and contributions	-	36,300	-	-	-	36,300
General revenues:						
Property taxes	4,253,527	4,368,245	-	-	4,253,527	4,368,245
Grants and entitlements	6,637,689	6,737,770	-	-	6,637,689	6,737,770
Investment earnings	40,738	27,262	-	468	40,738	27,730
Other	99,033	58,804	-	-	99,033	58,804
Total revenues	<u>12,233,119</u>	<u>12,147,008</u>	<u>548,576</u>	<u>547,656</u>	<u>12,781,695</u>	<u>12,694,664</u>
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	\$ 6,545,434	\$ 6,899,972	\$ -	\$ -	\$ 6,545,434	\$ 6,899,972
Special	893,426	804,691	-	-	893,426	804,691
Vocational	41,768	75,061	-	-	41,768	75,061
Other	-	1,084	-	-	-	1,084
Support services:						
Pupil	235,712	356,341	-	-	235,712	356,341
Instructional staff	389,691	568,820	-	-	389,691	568,820
Board of education	3,004	7,535	-	-	3,004	7,535
Administration	1,241,658	911,163	-	-	1,241,658	911,163
Fiscal	429,883	361,284	-	-	429,883	361,284
Business	18,569	21,318	-	-	18,569	21,318
Operations and maintenance	705,491	953,176	-	-	705,491	953,176
Pupil transportation	464,188	501,303	-	-	464,188	501,303
Central	449,523	446,164	-	-	449,523	446,164
Operations of non-instructional services:						
Non-instructional services	1,904	22,490	-	-	1,904	22,490
Extracurricular activities	539,967	506,533	-	-	539,967	506,533
Interest and fiscal charges	329,510	308,929	-	-	329,510	308,929
Food service operations	-	-	<u>615,742</u>	<u>621,567</u>	<u>615,742</u>	<u>621,567</u>
Total expenses	<u>12,289,728</u>	<u>12,745,864</u>	<u>615,742</u>	<u>621,567</u>	<u>12,905,470</u>	<u>13,367,431</u>
Change in net assets	(56,609)	(598,856)	(67,166)	(73,911)	(123,775)	(672,767)
Net assets at beginning of year	<u>8,189,995</u>	<u>8,788,851</u>	<u>144,751</u>	<u>218,662</u>	<u>8,334,746</u>	<u>9,007,513</u>
Net assets at end of year	<u><u>\$ 8,133,386</u></u>	<u><u>\$ 8,189,995</u></u>	<u><u>\$ 77,585</u></u>	<u><u>\$ 144,751</u></u>	<u><u>\$ 8,210,971</u></u>	<u><u>\$ 8,334,746</u></u>

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Governmental Activities

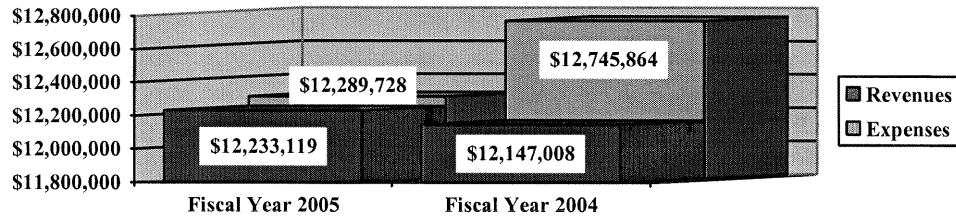
Net assets of the District's governmental activities decreased \$56,609. Total governmental expenses of \$12,289,728 were offset by program revenues of \$1,202,132 and general revenues of \$11,030,987. Program revenues supported 9.83% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 89.03% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,480,628 or 60.87% of total governmental expenses for fiscal 2005.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

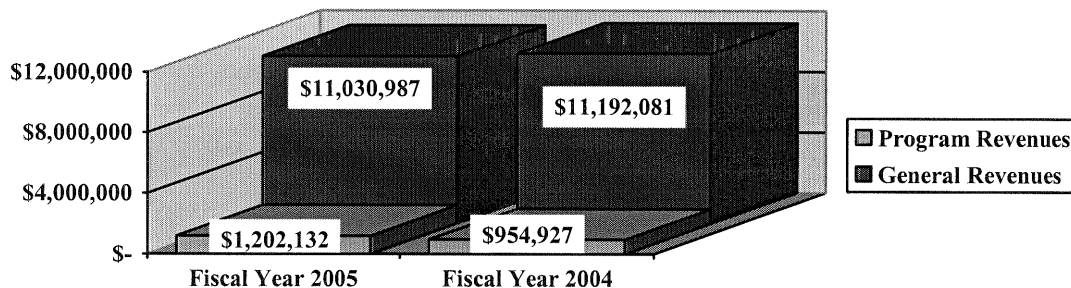
Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 6,545,434	\$ 6,168,942	\$ 6,899,972	\$ 6,758,446
Special	893,426	586,305	804,691	515,942
Vocational	41,768	41,768	75,061	75,061
Other	-	-	1,084	1,084
Support services:				
Pupil	235,712	209,960	356,341	307,342
Instructional staff	389,691	295,667	568,820	453,534
Board of education	3,004	3,004	7,535	7,535
Administration	1,241,658	1,169,368	911,163	842,827
Fiscal	429,883	426,497	361,284	351,232
Business	18,569	18,569	21,318	21,318
Operations and maintenance	705,491	692,363	953,176	937,598
Pupil transportation	464,188	446,012	501,303	485,056
Central	449,523	406,665	446,164	396,393
Operations of non-instructional services:				
Non-instructional services	1,904	1,904	22,490	22,490
Extracurricular activities	539,967	291,062	506,533	306,150
Interest and fiscal charges	<u>329,510</u>	<u>329,510</u>	<u>308,929</u>	<u>308,929</u>
Total expenses	<u>\$ 12,289,728</u>	<u>\$ 11,087,596</u>	<u>\$ 12,745,864</u>	<u>\$ 11,790,937</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 90.86% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.75%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Business-Type Activities

Business-type activities include the food service fund. This program had revenues of \$548,576 and expenses of \$615,742 for fiscal year 2005. The District's business activities receive no support from tax revenues.

The District's Funds

The District's governmental funds reported a combined fund balance of \$2,123,221 which is higher than last year's total of \$1,785,594. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 1,171,471	\$ 1,131,347	\$ 40,124	3.55 %
Debt Service	638,647	483,204	155,443	32.17 %
Other Governmental	<u>313,103</u>	<u>171,043</u>	<u>142,060</u>	83.06 %
Total	<u>\$ 2,123,221</u>	<u>\$ 1,785,594</u>	<u>\$ 337,627</u>	18.91 %

General Fund

The District's general fund balance increased \$40,124 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A to the basic financial statements). The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 3,544,243	\$ 3,652,727	\$ (108,484)	(2.97) %
Earnings on investments	40,738	27,262	13,476	49.43 %
Extracurricular	199,864	21,646	178,218	823.33 %
Intergovernmental	6,547,476	6,638,866	(91,390)	(1.38) %
Other revenues	<u>3,125</u>	<u>5,153</u>	<u>(2,028)</u>	(39.36) %
Total	<u>\$ 10,335,446</u>	<u>\$ 10,345,654</u>	<u>\$ (10,208)</u>	(0.10) %
<u>Expenditures</u>				
Instruction	\$ 6,695,942	\$ 7,047,780	\$ (351,838)	(4.99) %
Support services	3,230,456	3,666,995	(436,539)	(11.90) %
Non-instructional services	2,033	38,156	(36,123)	(94.67) %
Extracurricular activities	231,582	231,988	(406)	(0.18) %
Debt service	<u>124,223</u>	<u>122,133</u>	<u>2,090</u>	1.71 %
Total	<u>\$ 10,284,236</u>	<u>\$ 11,107,052</u>	<u>\$ (822,816)</u>	(7.41) %

The decrease in expenditures was primarily due to the reduction in District staff.

Debt Service Fund

The District's debt service fund balance increased by \$155,443. The fund experienced little variations in its revenues and expenditures as compared to the prior year. The increase in fund balance is attributed to the current year revenues exceeding the expenditures.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original appropriations and other financing uses were \$10,832,547 and final appropriations and other financing uses were \$10,584,047. Actual budget basis expenditures and other financing uses for fiscal 2005 was \$10,491,556. This represents an \$92,491 decrease from final appropriations.

General fund original budgeted revenues and other financing sources totaled \$10,529,857. Final budgeted and actual revenues and other financing sources for fiscal year 2005 totaled \$10,355,207, which is \$174,650 lower than the original budget revenues.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$12,491,582 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. See Note 8 to the basic financial statements for additional information. \$12,366,858 is reported in governmental activities and \$124,724 in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

	Capital Assets at June 30 (Net of Depreciation)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 341,835	\$ 341,835	\$ -	\$ -	\$ 341,835	\$ 341,835
Construction in progress	-	60,755	-	-	-	60,755
Land improvements	153,806	157,760	-	-	153,806	157,760
Building and improvements	10,493,500	10,420,663	-	-	10,493,500	10,420,663
Furniture and equipment	916,077	1,089,350	124,724	142,524	1,040,801	1,231,874
Vehicles	461,640	520,121	-	-	461,640	520,121
Total	<u>\$12,366,858</u>	<u>\$12,590,484</u>	<u>\$ 124,724</u>	<u>\$ 142,524</u>	<u>\$12,491,582</u>	<u>\$12,733,008</u>

The overall decrease in governmental activities capital assets of \$223,626 is primarily due to depreciation expense of \$604,117 exceeding capital outlays of \$441,246 and a decrease of \$60,755 in construction in progress in the fiscal year.

Debt Administration

At June 30, 2005, the District had \$3,655,000 in general obligation bonds outstanding and \$1,733,170 in capital lease obligations. Of this total, \$259,658 is due within one year and \$5,128,512 is due within greater than one year. See Note 11 to the basic financial statements for additional information. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
General obligation bonds	\$ 3,655,000	\$ 3,735,000
Capital lease obligations	<u>1,733,170</u>	<u>1,615,988</u>
Total	<u>\$ 5,388,170</u>	<u>\$ 5,350,988</u>

At June 30, 2005, the District's overall legal debt margin was \$11,187,217, and an unvoted debt margin of \$157,817.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Current Financial Related Activities

The District had General Fund cash balances of \$1,786,132 in 2005, \$1,885,636 in FY 2004, \$2,594,630 in FY 2003, \$3,358,737 in FY 2002, \$4,585,056 in FY 2001 and \$5,708,765 in FY 2000. The decline in cash balances is attributable to three factors. In Fiscal Years 2001 and 2002 the board transferred monies from the General Fund to the Building Fund as a "down payment" on the new John C. Roberts Middle School. The decline in FY 2003 and FY 2004 were attributable to the decision of the Board not to seek renewal of a 5 mill Emergency levy. And, part of the decline in FY 2003, FY 2004 and continued into FY 2005 was due to operating deficits in the fund. During that time frame the Board proposed to voters three levies to resolve the deficits. All three failed, the latter two by small margins. For that reason the Board took steps to reduce school operating expenses by \$1,000,000. In FY 2004 the District's per pupil expense was \$7,200. That is below State average and it is also below the average of the District's peer groups. Likewise, the district's grade card score on academic indicators are above the state's average and peer group average.

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

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

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

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

Revenues

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

Expenditures

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

Contacting the District's Financial Management

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 2,734,437	\$ 479	\$ 2,734,916
Cash with fiscal agent	730	-	730
Receivables:			
Taxes	3,844,703	-	3,844,703
Intergovernmental	4,259	10,226	14,485
Note receivable	35,153	-	35,153
Prepayments	7,666	-	7,666
Materials and supplies inventory	17,395	7,035	24,430
Internal balance.	39,686	(39,686)	-
Capital assets:			
Land	341,835	-	341,835
Depreciable capital assets, net	12,025,023	124,724	12,149,747
Capital assets, net.	<u>12,366,858</u>	<u>124,724</u>	<u>12,491,582</u>
Total assets.	<u>19,050,887</u>	<u>102,778</u>	<u>19,153,665</u>
Liabilities:			
Accounts payable.	11,679	-	11,679
Accrued wages and benefits	882,824	9,128	891,952
Pension obligation payable.	254,930	646	255,576
Intergovernmental payable	19,438	453	19,891
Deferred revenue	3,075,487	-	3,075,487
Accrued interest payable	15,463	-	15,463
Long-term liabilities:			
Due within one year	559,062	2,208	561,270
Due in more than one year	6,098,618	12,758	6,111,376
Total liabilities	<u>10,917,501</u>	<u>25,193</u>	<u>10,942,694</u>
Net Assets:			
Invested in capital assets, net of related debt.	6,978,688	124,724	7,103,412
Restricted for:			
Capital projects	228,325	-	228,325
Debt service.	638,796	-	638,796
Locally funded programs.	1,489	-	1,489
State funded programs	9,114	-	9,114
Federally funded programs	732	-	732
Student Activities	60,856	-	60,856
Other purposes	64,239	-	64,239
Unrestricted (deficit)	<u>151,147</u>	<u>(47,139)</u>	<u>104,008</u>
Total net assets	<u>\$ 8,133,386</u>	<u>\$ 77,585</u>	<u>\$ 8,210,971</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular	\$ 6,545,434	\$ 275,486	\$ 101,006
Special	893,426	-	307,121
Vocational	41,768	-	-
Support services:			
Pupil	235,712	-	25,752
Instructional staff	389,691	-	94,024
Board of education	3,004	-	-
Administration	1,241,658	-	72,290
Fiscal	429,883	-	3,386
Business	18,569	-	-
Operations and maintenance	705,491	2,535	10,593
Pupil transportation	464,188	-	18,176
Central	449,523	229	42,629
Operation of non-instructional services:			
Non-instructional services	1,904	-	-
Extracurricular activities	539,967	200,260	48,645
Interest and fiscal charges	329,510	-	-
Total governmental activities	12,289,728	478,510	723,622
Business-type activities:			
Food service	615,742	374,912	173,664
Total business-type activities	615,742	374,912	173,664
Totals	\$ 12,905,470	\$ 853,422	\$ 897,286

General Revenues:

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

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (6,168,942)	\$ -	\$ (6,168,942)
(586,305)	-	(586,305)
(41,768)	-	(41,768)
(209,960)	-	(209,960)
(295,667)	-	(295,667)
(3,004)	-	(3,004)
(1,169,368)	-	(1,169,368)
(426,497)	-	(426,497)
(18,569)	-	(18,569)
(692,363)	-	(692,363)
(446,012)	-	(446,012)
(406,665)	-	(406,665)
(1,904)	-	(1,904)
(291,062)	-	(291,062)
(329,510)	-	(329,510)
<u>(11,087,596)</u>	<u>-</u>	<u>(11,087,596)</u>
-	(67,166)	(67,166)
-	(67,166)	(67,166)
<u>(11,087,596)</u>	<u>(67,166)</u>	<u>(11,154,762)</u>
3,542,016	-	3,542,016
394,980	-	394,980
316,531	-	316,531
6,637,689	-	6,637,689
40,738	-	40,738
99,033	-	99,033
<u>11,030,987</u>	<u>-</u>	<u>11,030,987</u>
(56,609)	(67,166)	(123,775)
<u>8,189,995</u>	<u>144,751</u>	<u>8,334,746</u>
<u>\$ 8,133,386</u>	<u>\$ 77,585</u>	<u>\$ 8,210,971</u>

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,741,279	\$ 575,772	\$ 372,533	\$ 2,689,584
Cash with fiscal agent	-	-	730	730
Receivables:				
Taxes	3,239,159	351,712	253,832	3,844,703
Intergovernmental	-	-	4,259	4,259
Interfund receivable	138,767	-	-	138,767
Note receivable	-	-	35,153	35,153
Prepayments	7,666	-	-	7,666
Materials and supplies inventory	17,395	-	-	17,395
Restricted assets:				
Equity in pooled cash and cash equivalents	44,853	-	-	44,853
Total assets	<u>\$ 5,189,119</u>	<u>\$ 927,484</u>	<u>\$ 666,507</u>	<u>\$ 6,783,110</u>
Liabilities:				
Accounts payable	\$ 7,398	\$ -	\$ 4,281	\$ 11,679
Accrued wages and benefits	845,560	-	37,264	882,824
Compensated absences payable	150,712	-	-	150,712
Pension obligation payable	254,930	-	-	254,930
Intergovernmental payable	18,331	-	1,107	19,438
Interfund payable	-	-	99,081	99,081
Deferred revenue	2,740,717	288,837	211,671	3,241,225
Total liabilities	<u>4,017,648</u>	<u>288,837</u>	<u>353,404</u>	<u>4,659,889</u>
Fund Balances:				
Reserved for encumbrances	29,447	-	120,157	149,604
Reserved for materials and supplies inventory	17,395	-	-	17,395
Reserved for prepayments	7,666	-	-	7,666
Reserved for property tax unavailable for appropriation	498,442	62,875	42,161	603,478
Reserved for budget stabilization	44,853	-	-	44,853
Unreserved:				
Designated for budget stabilization	420,290	-	-	420,290
Undesignated, reported in:				
General fund	153,378	-	-	153,378
Special revenue funds	-	-	86,378	86,378
Debt service fund	-	575,772	-	575,772
Capital projects funds	-	-	64,407	64,407
Total fund balances	<u>1,171,471</u>	<u>638,647</u>	<u>313,103</u>	<u>2,123,221</u>
Total liabilities and fund balances	<u>\$ 5,189,119</u>	<u>\$ 927,484</u>	<u>\$ 666,507</u>	<u>\$ 6,783,110</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances	\$	2,123,221
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,366,858
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		165,738
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(15,463)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$	(1,118,798)
Capital lease obligation		(1,733,170)
General obligation bonds payable		<u>(3,655,000)</u>
Total		<u>(6,506,968)</u>
Net assets of governmental activities	\$	<u><u>8,133,386</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,544,243	\$ 394,638	\$ 316,354	\$ 4,255,235
Earnings on investments.	40,738	-	-	40,738
Extracurricular.	199,864	-	278,417	478,281
Other local revenues.	3,125	-	146,799	149,924
Intergovernmental - State.	6,547,476	45,511	291,065	6,884,052
Intergovernmental - Federal	-	-	426,597	426,597
Total revenues.	<u>10,335,446</u>	<u>440,149</u>	<u>1,459,232</u>	<u>12,234,827</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,031,165	-	194,797	6,225,962
Special.	559,566	-	360,130	919,696
Vocational.	41,768	-	-	41,768
Support services:				
Pupil.	206,180	-	29,532	235,712
Instructional staff	257,396	-	97,093	354,489
Board of education	3,004	-	-	3,004
Administration.	1,007,973	-	77,342	1,085,315
Fiscal	373,441	-	8,241	381,682
Business	18,569	-	-	18,569
Operations and maintenance.	607,561	-	117,028	724,589
Pupil transportation	375,918	-	18,180	394,098
Central.	380,414	7,258	61,160	448,832
Operation of non-instructional services:				
Non-instructional services	2,033	-	1,116	3,149
Extracurricular activities.	231,582	-	231,938	463,520
Capital outlay	-	-	303,313	303,313
Debt service:				
Principal retirement	56,529	80,000	129,602	266,131
Interest and fiscal charges	67,694	197,448	65,542	330,684
Total expenditures	<u>10,220,793</u>	<u>284,706</u>	<u>1,695,014</u>	<u>12,200,513</u>
Excess of revenues over (under) expenditures.	<u>114,653</u>	<u>155,443</u>	<u>(235,782)</u>	<u>34,314</u>
Other financing sources (uses):				
Transfers in	-	-	74,529	74,529
Transfers (out).	(74,529)	-	-	(74,529)
Capital lease transaction.	-	-	303,313	303,313
Total other financing sources (uses)	<u>(74,529)</u>	<u>-</u>	<u>377,842</u>	<u>303,313</u>
Net change in fund balances	40,124	155,443	142,060	337,627
Fund balances				
at beginning of year (restated).	1,131,347	483,204	171,043	1,785,594
Fund balances at end of year.	<u>\$ 1,171,471</u>	<u>\$ 638,647</u>	<u>\$ 313,103</u>	<u>\$ 2,123,221</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 337,627

*Amounts reported for governmental activities in the
statement of activities are different because:*

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions (net)	\$	380,491	
Current year depreciation		<u>(604,117)</u>	
 Total			 (223,626)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,708)
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	266,131
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.	1,174
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The issuance of capital leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.	(303,313)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(132,894)</u>
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Change in net assets of governmental activities	<u>\$ (56,609)</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	<u>Business-Type Activities - Nonmajor Enterprise Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 479
Receivables:	
Intergovernmental	10,226
Materials and supplies inventory	7,035
Total current assets	<u>17,740</u>
Noncurrent assets:	
Capital assets, net.	<u>124,724</u>
Total assets	<u>142,464</u>
Liabilities:	
Current liabilities:	
Accrued wages and benefits	9,128
Pension obligation payable.	646
Interfund loan payable.	39,686
Intergovernmental payable	453
Current compensated absences.	2,208
Total current liabilities	<u>52,121</u>
Non-current liabilities:	
Compensated absences	<u>12,758</u>
Total liabilities	<u>64,879</u>
Net assets:	
Invested in capital assets	124,724
Unrestricted.	(47,139)
Total net assets	<u>\$ 77,585</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Nonmajor Enterprise Fund
Operating revenues:	
Sales/charges for services	\$ 374,912
Total operating revenues	<u>374,912</u>
Operating expenses:	
Personal services	317,905
Purchased services.	639
Materials and supplies.	279,398
Depreciation	<u>17,800</u>
Total operating expenses	<u>615,742</u>
Operating loss.	<u>(240,830)</u>
Nonoperating revenues:	
Federal donated commodities	65,171
Grants and subsidies	<u>108,493</u>
Total nonoperating revenues	<u>173,664</u>
Change in net assets.	(67,166)
Net assets at beginning of year	<u>144,751</u>
Net assets at end of year	<u><u>\$ 77,585</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Nonmajor Enterprise Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 374,912
Cash payments for personal services.	(317,524)
Cash payments for contractual services	(639)
Cash payments for materials and supplies	<u>(217,962)</u>
Net cash used in operating activities	<u>(161,213)</u>
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies	109,707
Cash received from interfund loans	<u>39,686</u>
Net cash provided by noncapital financing activities.	<u>149,393</u>
Net decrease in cash and cash equivalents.	(11,820)
Cash and cash equivalents at beginning of year	<u>12,299</u>
Cash and cash equivalents at end of year.	<u>\$ 479</u>

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**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Business-Type Activities - Nonmajor Enterprise Fund
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(240,830)
Adjustments:		
Depreciation.		17,800
Federal donated commodities		65,171
Changes in assets and liabilities:		
Increase in materials and supplies inventory		(3,735)
Increase in accrued wages and benefits		736
Increase in intergovernmental payable.		27
Increase in compensated absences payable.		902
Decrease in pension obligation payable.		(1,284)
		(1,284)
Net cash used in operating activities	\$	(161,213)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 13,704</u>
Total assets.	<u>\$ 13,704</u>
Liabilities:	
Due to students	<u>\$ 13,704</u>
Total liabilities	<u>\$ 13,704</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Genoa Area Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is the 334th largest in the State of Ohio (among 614 public school districts) in terms of enrollment. It is staffed by 57 non-certificated employees and 101 certificated full-time teaching personnel who provide services to 1,700 students and other community members. The District currently operates 4 instructional buildings, 1 administrative building, 1 athletic complex and 1 bus garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14 and No. 39, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association

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

Penta County Career Center

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school, however, it is considered a separate political subdivision and is not considered to be part of the District. Financial information is available from Carrie Herringshaw, Treasurer, 30095. Oregon Road, Perrysburg, Ohio 43551-4594.

INSURANCE PURCHASING POOLS

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

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

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

The San-Ott School Employees Welfare Benefit Association

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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

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. The District has one enterprise fund to account for food service operations. This enterprise fund is considered a nonmajor enterprise fund.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities), they service the District's student activities, and do not involve measurement of results of operations.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Basis of Accounting

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

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

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

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

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

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2005 is as follows:

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

The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures for all funds, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the legal level of budgetary control for a fund must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with the general obligation bond indenture and other statutory provisions.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2005.
9. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

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

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2005 amounted to \$40,738 which includes \$12,891 assigned from other District funds.

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

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

G. Inventory

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

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

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the enterprise fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$300. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

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

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

I. Interfund Balances

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee's retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid. In proprietary fund, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary fund are reported on the proprietary fund financial statements.

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

L. Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, material and supplies, prepayments, property taxes unavailable for appropriation, and for budget stabilization. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute. A fund balance designation is reported for amounts set-aside by the District for budget stabilization.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside to create a reserve for budget stabilization. See Note 17 for details.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are sales for food service operations. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

R. Interfund Activity

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

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Correction of Error

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The effect of the implementation of GASB Technical Bulletin No. 2004-2 on the fund balances of the District as they were previously reported as of June 30, 2004 is disclosed in the following table:

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

An error occurred in the prior year where a principle was not properly applied. This resulted in the understatement of the pension obligation for the fiscal year ended June 30, 2004. The correction of the error had the effect disclosed in the following table on the June 30, 2004 fund balances of the governmental activities and general fund.

	<u>Governmental Activities</u>	<u>General</u>	
Fund Balances, June 30, 2004	\$ 8,337,031	\$ 1,302,592	
GASB Technical Bulletin No. 2004-2	-	(24,209)	
Correction of Error	<u>(147,036)</u>	<u>(147,036)</u>	
Restated Fund Balance, June 30, 2004	<u>\$ 8,189,995</u>	<u>\$ 1,131,347</u>	

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
EMIS	\$ 748
Public Preschool	10
Student Intervention	61
Title VI-B	5,418
Title I	20,590
Title VI	11
Classroom Reduction Grant	10,243

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$2,748,620. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2,417,576 of the District's bank balance of \$2,717,576 was exposed to custodial risk as discussed below, while \$300,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. The District has no deposit policy for custodial risk beyond the requirements of State statute. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. STAR Ohio carries a rating of AAAM by Standard and Poor's.

B. Cash with Fiscal Agent

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,748,620
Cash with Fiscal Agent	<u>730</u>
Total	<u>\$ 2,749,350</u>

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,735,167
Enterprise	479
Agency	<u>13,704</u>
Total	<u>\$ 2,749,350</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 99,081
	Enterprise	<u>39,686</u>
		<u>138,767</u>

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

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 74,529

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$498,442 in the general fund, \$62,875 in the debt service fund and \$42,161 in the nonmajor governmental funds. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$462,219 in the general fund, \$57,195 in the debt service fund, and \$38,729 in the nonmajor governmental funds.

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 137,419,100	89.07	\$ 141,050,170	89.38
Public Utility Personal	6,325,080	4.11	6,537,440	4.14
Tangible Personal Property	<u>10,521,706</u>	<u>6.82</u>	<u>10,229,838</u>	<u>6.48</u>
Total	<u>\$ 154,265,886</u>	<u>100.00</u>	<u>\$ 157,817,448</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$ 59.70		 \$ 62.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, notes, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Taxes - current and delinquent	\$ 3,844,703
Note receivable	35,153
Intergovernmental	4,259

Business-type Activities

Intergovernmental	<u>10,226</u>
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Total receivables	<u>\$ 3,894,341</u>
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Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within the subsequent year.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2005, was as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 341,835	\$ -	\$ -	\$ 341,835
Construction in progress	<u>60,755</u>	<u>-</u>	<u>(60,755)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>402,590</u>	<u>-</u>	<u>(60,755)</u>	<u>341,835</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	470,251	3,842	-	474,093
Buildings and improvements	13,109,906	398,413	-	13,508,319
Furniture and equipment	2,818,278	38,991	-	2,857,269
Vehicles	<u>1,283,861</u>	<u>-</u>	<u>-</u>	<u>1,283,861</u>
Total capital assets, being depreciated	<u>17,682,296</u>	<u>441,246</u>	<u>-</u>	<u>18,123,542</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(312,491)	(7,796)	-	(320,287)
Buildings and improvements	(2,689,243)	(325,576)	-	(3,014,819)
Furniture and equipment	(1,728,928)	(212,264)	-	(1,941,192)
Vehicles	<u>(763,740)</u>	<u>(58,481)</u>	<u>-</u>	<u>(822,221)</u>
Total accumulated depreciation	<u>(5,494,402)</u>	<u>(604,117)</u>	<u>-</u>	<u>(6,098,519)</u>
Governmental activities capital assets, net	<u>\$ 12,590,484</u>	<u>\$ (162,871)</u>	<u>\$ (60,755)</u>	<u>\$ 12,366,858</u>
Business-Type Activities				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 319,222	\$ -	\$ -	\$ 319,222
Total capital assets being depreciated	<u>319,222</u>	<u>-</u>	<u>-</u>	<u>319,222</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	<u>(176,698)</u>	<u>(17,800)</u>	<u>-</u>	<u>(194,498)</u>
Total accumulated depreciation	<u>(176,698)</u>	<u>(17,800)</u>	<u>-</u>	<u>(194,498)</u>
Business-type activities capital assets, net	<u>\$ 142,524</u>	<u>\$ (17,800)</u>	<u>\$ -</u>	<u>\$ 124,724</u>

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 296,313
Support Services:	
Instructional staff	65,497
Administration	50,362
Fiscal	3,375
Operations and maintenance	28,217
Pupil transportation	71,299
Extracurricular	<u>89,054</u>
Total depreciation expense	<u>\$ 604,117</u>

NOTE 9 - OPERATING LEASES

The District leases certain operating equipment and building under noncancelable operating leases.

The following is a schedule of the future minimum rental payments required under these operating leases that have an initial or remaining noncancelable lease term in excess of one year as of June 30, 2005:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2006	<u>\$ 21,400</u>

The net expense for the year ended June 30, 2005 was \$51,300.

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Governmental activities capital assets consisting of the District's central office, computer equipment, weight equipment, athletic complex and sign, and football stadium have been capitalized and are included in the District's capital assets. The amounts capitalized represent the present value of the future minimum lease payments at the time of acquisition. The capitalized cost associated with the buildings and building improvements is \$2,007,313 and furniture and equipment is \$311,388.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2005 fiscal year totaled \$186,131 and \$133,236, respectively. These amounts are reported as debt service payments of the general fund and nonmajor governmental funds.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

Year Ending June 30	Amount
2006	\$ 297,111
2007	254,100
2008	251,980
2009	250,374
2010	249,533
2011 - 2015	934,903
2016 - 2017	183,350
Total minimum lease payment	2,421,351
Less: amount representing interest	(688,181)
Present value of minimum lease payments	\$ 1,733,170

NOTE 11 - LONG-TERM OBLIGATIONS

A. During fiscal year 2005, the following changes occurred in governmental and business-type activities long-term obligations:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005	Amount Due in One Year
Governmental Activities:					
Compensated absences payable	\$ 1,093,297	\$ 392,826	\$ (216,613)	\$ 1,269,510	\$ 299,404
General obligation bonds payable	3,735,000	-	(80,000)	3,655,000	85,000
Capital lease obligation	1,615,988	303,313	(186,131)	1,733,170	174,658
Total governmental activities long-term liabilities	\$ 6,444,285	\$ 696,139	\$ (482,744)	\$ 6,657,680	\$ 559,062
Business-Type Activities:					
Compensated absences	\$ 14,064	\$ 902	-	\$ 14,966	\$ 2,208
Total business-type	\$ 14,064	\$ 902	-	\$ 14,966	\$ 2,208

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

Capital Lease Obligation: The capital lease obligation will be paid from the general fund and nonmajor governmental funds. See Note 10 for details.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: On July 1, 1999, the District issued \$3,959,000 in general obligation bonds (Series 2000, School Facilities Improvement Bonds), for the purpose of construction and renovation of school facilities. These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.15 (average) mill bonded permanent improvement tax levy. The bonds are schedule to mature on December 1, 2027.

- B.** Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2006	\$ 85,000	\$ 192,909	\$ 277,909
2007	90,000	188,097	278,097
2008	95,000	183,009	278,009
2009	100,000	177,648	277,648
2010	105,000	172,010	277,010
2011 - 2015	610,000	770,129	1,380,129
2016 - 2020	790,000	589,252	1,379,252
2021 - 2025	1,025,000	348,165	1,373,165
2026 - 2028	755,000	62,505	817,505
Total	<u>\$ 3,655,000</u>	<u>\$ 2,683,724</u>	<u>\$ 6,338,724</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, 2005 are a voted debt margin of \$11,187,217 (including available funds of \$638,647) and unvoted debt margin of \$157,817.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

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

B. Group Health Insurance

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

NOTE 13 - RISK MANAGEMENT

A. Property and Liability

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

B. Employee Group Health Insurance

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

A third party, Group Health Care and Medical Mutual of Ohio headquartered in Toledo, Ohio, reviews all claims which are then paid by the Pool. As of June 30, 2005, the Pool has cash reserves of \$3,008,596, which, in the opinion of San-Ott Consortium management, is adequate for any claims against the Pool.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - RISK MANAGEMENT - (Continued)

During the fiscal year the District paid \$696,766 into the Pool for coverage. These costs are paid by the fund that pays the salary for the covered employees. The Pool purchases insurance coverage for excess claims to limit the potential loss to its members. The amount of risk retained within the Pool is an annual aggregate limit of \$100,000 per individual and claims exceeding that limit are covered by stop-loss insurance provided by a commercial insurer. The members, including the District, may be liable for any claims which exceed the Pool's assets and are less than the excess claims amount, which could be charged to members at a pro-rata share of the individual member's premium to the total Pool premiums. Financial information relating to the Pool may be obtained by writing to San-Ott Consortium, c/o Vanguard, 1306 Cedar Street, Fremont, OH 43420.

C. Worker's Compensation Plan

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$352,838, \$403,910 and \$382,000, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,000,940, \$1,024,378, and \$865,000, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$7,834 made by the District and \$18,763 made by plan members.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% 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 State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$59,179 during fiscal 2005.

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

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

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Net expenses for health care at June 30, 2005 were \$178.221 million and the target level was \$335.2 million. At June 30, 2005 SERS had net assets available for payment of health care benefits of \$267.5 million and SERS had approximately 58,123 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$66,964 during the 2005 fiscal year.

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 17 - 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, 2005, the reserve activity was as follows:

	Instructional <u>Materials</u>	Capital <u>Maintenance</u>	Budget Stabilization <u>Reserved</u>	<u>Designated</u>
Set-aside balance as of June 30, 2004	\$ (44,063)	\$ -	\$ 44,853	\$ 420,290
Current year set-aside requirement	228,486	228,486	-	-
Qualifying disbursements	<u>(264,008)</u>	<u>(354,104)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ (79,585)</u>	<u>\$ (125,618)</u>	<u>\$ 44,853</u>	<u>\$ 420,290</u>
Balance carried forward to FY 2006	<u>\$ (79,585)</u>	<u>\$ -</u>	<u>\$ 44,853</u>	<u>\$ 420,290</u>

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

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 - STATUTORY RESERVES - (Continued)

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

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for budget stabilization	<u>\$ 44,853</u>
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**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,579,786	\$ 3,508,020	\$ 3,508,020	\$ -
Earnings on investments.	32,000	42,379	42,379	-
Extracurricular.	22,500	199,864	199,864	-
Other local revenues	216,000	3,125	3,125	-
Intergovernmental - State	<u>6,540,571</u>	<u>6,547,477</u>	<u>6,547,477</u>	<u>-</u>
Total revenues.	<u>10,390,857</u>	<u>10,300,865</u>	<u>10,300,865</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,429,406	6,280,715	6,228,476	52,239
Special.	581,448	568,001	563,277	4,724
Vocational.	20,904	20,421	20,251	170
Support services:				
Pupil.	224,781	219,582	217,756	1,826
Instructional staff	281,216	274,713	272,428	2,285
Board of education	5,265	5,143	5,100	43
Administration.	1,008,907	985,574	977,377	8,197
Fiscal	351,878	343,740	340,881	2,859
Business	19,168	18,725	18,569	156
Operations and maintenance.	765,813	748,102	746,313	1,789
Pupil transportation	378,588	369,833	366,757	3,076
Central.	298,833	291,922	289,494	2,428
Operation of non-instructional services	2,155	2,106	2,088	18
Extracurricular activities.	<u>235,235</u>	<u>231,815</u>	<u>229,494</u>	<u>2,321</u>
Total expenditures	<u>10,603,597</u>	<u>10,360,392</u>	<u>10,278,261</u>	<u>82,131</u>
Excess of revenues over (under) expenditures.	<u>(212,740)</u>	<u>(59,527)</u>	<u>22,604</u>	<u>82,131</u>
Other financing sources (uses):				
Transfers in.	139,000	-	-	-
Transfers (out)	(85,707)	(83,725)	(74,529)	9,196
Advances in.	-	54,342	54,342	-
Advances (out)	<u>(143,243)</u>	<u>(139,930)</u>	<u>(138,766)</u>	<u>1,164</u>
Total other financing sources (uses)	<u>(89,950)</u>	<u>(169,313)</u>	<u>(158,953)</u>	<u>10,360</u>
Net change in fund balance	(302,690)	(228,840)	(136,349)	92,491
Fund balance at beginning of year	1,825,589	1,825,589	1,825,589	-
Prior year encumbrances appropriated	60,047	60,047	60,047	-
Fund balance at end of year	<u>\$ 1,582,946</u>	<u>\$ 1,656,796</u>	<u>\$ 1,749,287</u>	<u>\$ 92,491</u>

-- continued

**GENOA AREA LOCAL SCHOOL DISTRICT
OTTAWA COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (136,349)
Net adjustment for revenue accruals	34,581
Net adjustment for expenditure accruals	20,623
Net adjustment for other sources/uses	84,424
Adjustment for encumbrances	<u>36,845</u>
GAAP basis	<u><u>\$ 40,124</u></u>

GENOA AREA LOCAL SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Grantor Number</u>	<u>CFDA</u>	<u>Receipts</u>	<u>Non Cash Awards</u>	<u>Expenditures</u>	<u>Non Cash Expenditures</u>
U.S. Department of Education:						
Passed through the Ohio Department of Education						
Special Education Part B - IDEA	048942-6BSF-2005	84.027	\$ 286,116		\$ 299,913	
Title I	048942-C1S1-2005	84.010	118,363		117,088	
Improving Teacher Quality, Title II A	048942-TRS1-2005	84.367	56,386		56,386	
Technology, Title II D	048942-TJS1-2005	84.318	3,147		3,147	
Safe and Drug Free Schools, Title IV - A	048942-DRS1-2005	84.186	6,136		7,215	
Innovative Programs, Title V	048942-C2S1-2005	84.298	6,871		15,708	
Total Department of Education			477,019		499,457	
U.S. Department of Agriculture:						
Passed through the Ohio Department of Education						
<u>Nutrition Cluster</u>						
National School Lunch Program	Nutrition Cluster	10.555	105,631		104,416	
Food Distribution Program	Nutrition Cluster	10.550	-	21,819	-	21,819
Total Department of Agriculture			105,631	21,819	104,416	21,819
Total Receipts and Expenditures of Federal Awards			\$ 582,650	\$ 21,819	\$ 603,873	\$ 21,819

NOTE - Food Distribution

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State Grants. It is assumed that federal monies are expended first.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Genoa Area Local School District
2810 N. Genoa Clay Center Road
Genoa, OH 43430

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Genoa Area Local School District as of and for the year ended June 30, 2005, which collectively comprise the Genoa Area Local School District's ("District") basic financial statements and have issued our report thereon dated March 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

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

Walter O'Brien Ltd.

March 6, 2006



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

Board of Education
Genoa Area Local School District
2810 N. Genoa Clay Center Road
Genoa, OH 43430

Compliance

We have audited the compliance of Genoa Area Local School District ("District"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

Webster O'Brien Ltd.

March 6, 2006

GENOA AREA LOCAL SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? yes no
 Reportable condition(s) identified not considered
 to be material weaknesses? yes none reported
 Noncompliance material to financial statements
 noted? yes no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes no
 Reportable conditions(s) identified not
 considered to be material weaknesses? yes none reported

Type of auditors’ report issued on compliance for
 major programs: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
84.027	Special Education (IDEA Part B)	
84.298	Innovative Programs, Title V	
Dollar threshold used to distinguish between Type A and Type B programs:		<u>\$300,000</u>
Auditee qualified as low risk auditee?		<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

GENOA AREA LOCAL SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005

NONE



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Betty Montgomery**

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GENOA AREA LOCAL SCHOOL DISTRICT

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 14, 2006**